THE MINING YEARBOOK

2020

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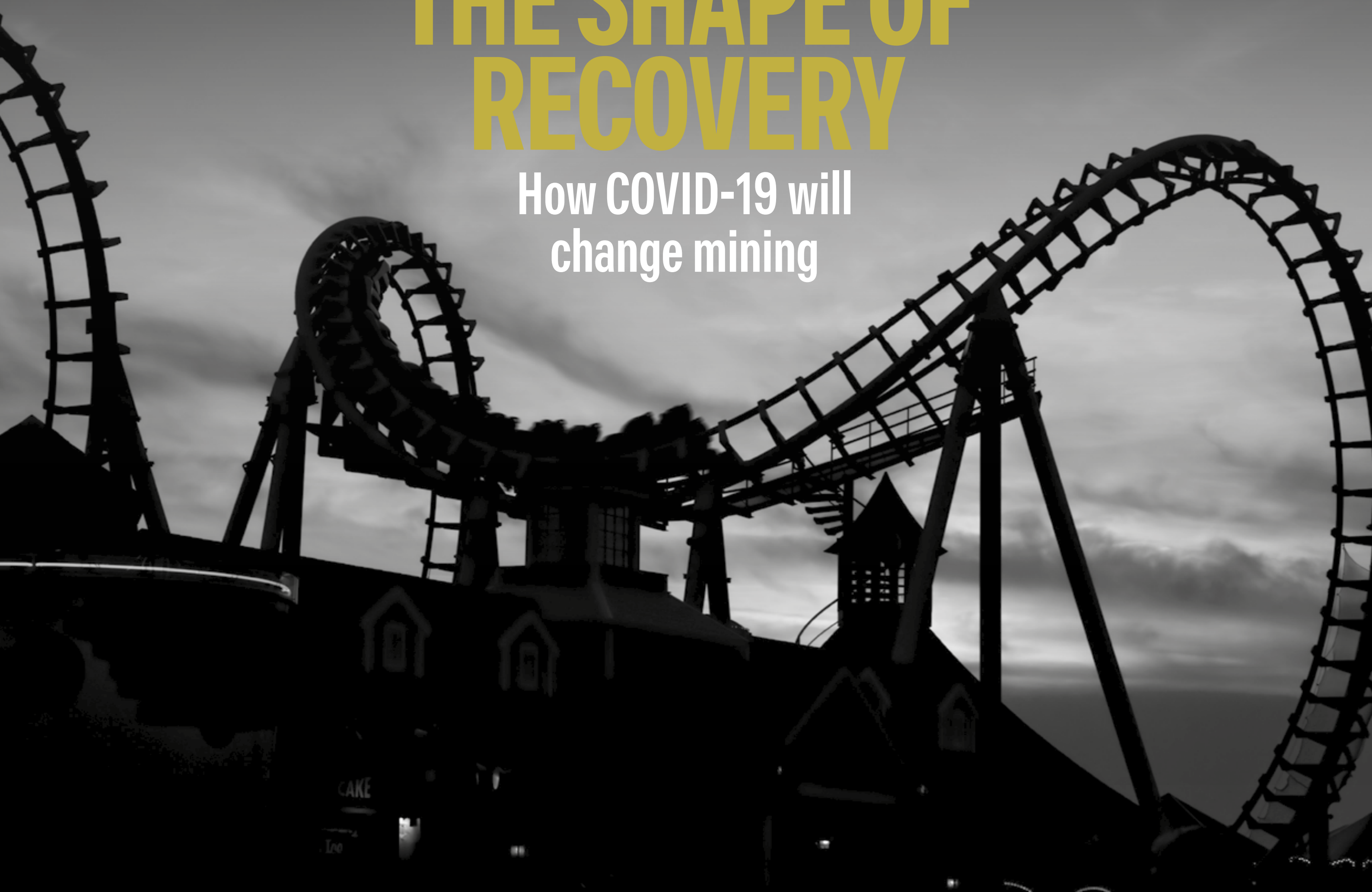
THE SHAPE OF RECOVERY

How COVID-19 will change mining

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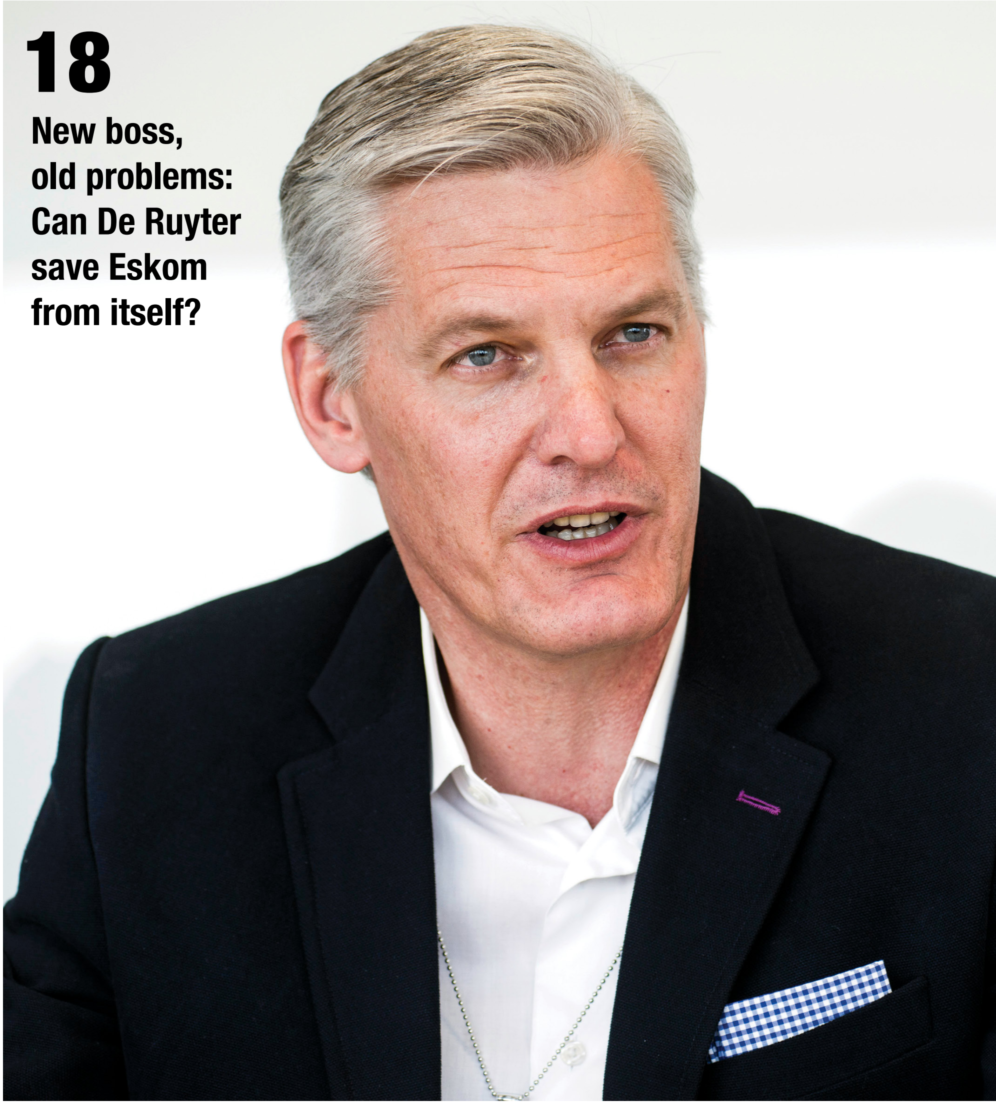
CONTENTS



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THE SHAPE OF RECOVERY

DAVID MCKAY

From economists to scientists, political sociologists to business leaders, 2020 has been a pageant of theory, each trying to catch the falling knife that is COVID-19. So far so good for the mining sector.

> ‘Governments have inappropriately terrified communities; governments of all types. So people who should be out there, businesses that should be operating, aren’t.’ – Cutifani

Mark Cutifani, Anglo American’s boss, materialises on the other side of a Teams meeting. He’s his normal self, obviously: buoyant and friendly. Working sans office is okay, he says; in fact, some work processes have improved (see ‘Gaga over video’ box on p.8). Still, it must be frustrating for a people person like him.

“We’re planning work more effectively ... we’ve learned how to get smarter in certain areas.”

What’s less certain are the long-term effects of COVID-19 on the mining sector, and what adaptations will take place.

According to a report by the World Bank, there’s an immediate risk to global value chains (GVCs). These are the trading economics and logistics that connect miners to customers and consumers. The bank says they are showing signs of unravelling. For instance, national security concerns regarding the reliability of supply of critical equipment, such as personal protective equipment, may start to favour local production, it says.

This would potentially lower transport demand as it would reduce average distance of imports. “All else equal, this would result in permanently lower oil demand as GVCs are more transport-intensive than other forms of trade,” the bank said. “It could also lead to shifts in the source of commodity demand as manufacturing hubs shift.”

Cutifani thinks economic shifts of this character were in the global mining sector already, and that mining firms have been adapting to them long before the pandemic. In the case of Anglo, there’s been a strategic shift in an effort to become a “materials solutions company” rather than mining, or even a metals and minerals company.

“We’ve got to get out there, get closer to our customers and, in fact, get closer to the consumers,” he says. Anglo established a concerted marketing function two or three years ago with this purpose in mind. “By 2035, about 50% of the world’s steel will be sourced from scrap returns. So there’ll be less metallurgical coal, and the type of coal that will be in the system will be very different. Iron ore will change in terms of its quality requirements and it will be a much more aggressive and competitive industry,” he says.

There’s a similar push to market platinum group metals (PGMs) and become increasingly involved in the downstream application of the metals. Eventually, Anglo will be involved – to some extent – in recycling PGMs. For De Beers, the diamond firm in which Anglo has an 85% stake, its branded retail stores are less about becoming a jeweller and more about responding to the consumer.

Anglo’s marketing office is headquartered in Singapore, described by Cutifani as a natural sales hub because it doesn’t produce its own resources. Being a conduit, polarisation of interests, be they political or economic, don’t work for it, he says. Yet this is exactly what’s going on in the world; in fact, the isolating forces of COVID-19 are accelerating an existing political narrative of de-globalisation, says Fiona Perrott-Humphrey, a senior adviser to Rothschild & Co, a bank.

Commenting in a webcast hosted by the law firm Herbert Smith Freehills in May, Perrot-Humphrey said: “Despite COVID-19 being described as a global pandemic, the effect has been for dispersion and the reversal of globalisation.”

This had been borne out in certain political developments: the US, China’s trade war, and increasing bilateralism, such as the withdrawal of the US from the World Health Organization and Brexit.

“If political relationships are difficult, it puts additional barriers in place, but we don’t let barriers get in the way,” says Cutifani. The mining sector, and business in general, had to do more because of the political vacuums that had been created. “We don’t work through the politicians.”

SHAPE OF THINGS TO COME

In terms of how the world economy will respond, it’s been popular to talk in visual terms: an immediate rebound or V-shaped recovery, for instance. The International Monetary Fund (IMF) has forecast a pronounced global recession, or L-shaped economic future.

Cutifani thinks the world economy will be volatile, bouncing and then retracing, possibly perilously, before a gradual recovery. He doesn’t think the industry will be on an even keel until well into 2021. For the short term, he forecasts recovery as supply and demand respond reflexively, assisted by fiscal stimulus.

“We shouldn’t underestimate how crazy people will be coming out of lockdowns,” he says. “Governments have inappropriately terrified communities; governments of all types. So people who should be out there, businesses that should be operating, aren’t.”

Mining firms will respond – Anglo expects to take its current 75% - 80% run-rate to 90% by the second half of its financial year – but much depends on consumers. “Implementing the lockdown was able to prevent populations from doing what they normally do,” says Andrew van Zyl, director and principal consultant to SRK, a mining engineering firm. “But there is no saying what they will choose to resume doing when the restrictions lift.”

There may be less inclination to buy cars, which would have a knock-on effect for the PGM industry which supplies catalyst converters to the car-making sector, says Perrott-Humphrey.

> ‘Despite COVID-19 being described as a global pandemic, the effect has been for dispersion and the reversal of globalisation.’
> – Perrott-Humphrey

Says Cutifani: “The bigger problem will ultimately be getting economies working and feeding people. There will be more deaths through nutrition issues than there will be from COVID-19.”

From a South African perspective, there’s huge pressure on the economy. Debt has spiralled and is expected to continue to do so. “Join the club,” says Cutifani. “Debt has risen everywhere.”

The pressure is continental, in fact, and could affect lending and donor patterns and, ultimately, politics – according to Peter Attard Montalto, global lead, capital markets research at Intellidex.

“Zambia and Tanzania are seeing long-standing fiscal problems coming to the surface. But capital markets are closed off and this is coming to a head. So structural relief will be tied to reforms,” he says.

According to Peter Leon, an attorney for Herbert Smith Freehills, some 26 African countries have sought $10bn or more in IMF support, and others are sure to follow. “The IMF will cost this support on the ability of countries to repay the loan and its transparency, which will surely mean a decline in resource nationalism,” he said.

Interestingly, South Africa’s well-documented wrangling over the Mining Charter has been completely obscured by the larger economic crisis afoot in the country. Cutifani thinks, however, President Cyril Ramaphosa’s administration is doing a decent job. He’s optimistic.

“I keep telling banks and others, in my 13 years that I’ve been going to South Africa, it has been the nosiest jurisdiction I’ve ever worked in, and probably the most consistent jurisdiction in terms of policy.

“My only hope is the ANC aligns and supports its leadership because if it undermines its leadership, then it undermines the country.”

GAGA OVER VIDEO

Mining company executives are among the most mobile in the world given the far-flung locations of geology. In lockdown, however, many say managing a geographically diverse asset base is actually a bit easier, more effective and definitely less stressful on the body clock.

Even before COVID-19, Resolute Mining CEO, John Welborn, had had a taste of running his company from home; actually, his bed.

“I broke my neck skiing a couple of years ago and as a result I’d had to stay put for the first time in ten years.

“Sometimes, though, you need to learn the same lesson a couple of times”, he says of recognising again that concerns his management effectiveness might be limited has, in fact, proved groundless. Welborn, as with many executives, think there are benefits to not travelling as much.

Some organisations are more resilient than given credit for. “I have an exceptional team, so I’ve actually been actually able to use this period to allow them to step up and deal with the crisis,” says Neal Froneman, CEO of Sibanye-Stillwater, a gold and platinum producer.

Froneman was in the US following a relisting of the company on the New York Stock Exchange when commercial international travel was banned. He decamped to Florida, where he has a house. From there, he’s overseen the induction of a new non-executive director, even providing the incumbent with a virtual mine tour.

Sibanye-Stillwater has also decided to put an office expansion on hold in favour of what it has dubbed SOHO (‘small office, home office’). “If you’re focused on outputs, and not worried about what people are doing, but measuring their outputs, then working from home – especially when you’ve got a good organisational culture – is the way to go,” says Froneman.

It’s also provided a break from some gruelling travel. “I’ve been trying to travel less for many years.

“It was what I was working towards, travelling less, and spending more time in one place because it’s the cost of travel; it’s getting over the jet lag and so on. That really takes days and days.”

The home office for Eira Thomas, CEO of Lucara Diamonds, is Vancouver – possibly the ultimate in remote relative to the world’s mining capitals, even Toronto. So, travel is pretty much in the firm’s DNA, especially considering the firm’s diamond mine, and its only asset, is in Botswana.

“I still think that face-time is really critical,” says Thomas. “But I also think that what this has taught us is that we actually can be very functional using Teams Meetings.”

Being in Vancouver may mean having to start the day somewhat early in order to accommodate management in different time zones, but then that also means an afternoon of uninterrupted work. “That can’t be too bad,” she says.

Anglo’s Cutifani reckons Teams Meetings may end up creating more accountability, owing to the way the UK-group works. As far as diversified mining companies go, it has a relatively small asset base, but geographically, it’s sprawling. Normally, it runs hook-ups with management from its UK headquarters to which the ‘regions’ participate by video conference. In lockdown, however, the drawbacks of this have been revealed.

Says Cutifani: “It ends up being that the people who aren’t in the room end up being spectators. Whereas if everybody is on Teams, they’re all part of it and participating quite differently.

“So, we’ll probably restructure some of the corporate global pick-ups that we do and instead of trying to do it from one centre and then have people on video, we may have everybody on laptops as part of Teams. Then they’re all part of a rogues gallery.” ■

President Cyril Ramaphosa

THE GREAT RESET

By CAROL PATON

As South Africa looks towards a post-COVID-19 future, what will the political and economic environment be like?

Many in the world are talking of "the great reset", which it is hoped will see the emergence of a fairer world, a greener world and a world more deeply concerned about the human impact on the planet. On the other hand, the countervailing forces are possibly stronger: more inward-focused economies, a trend towards protectionism, a weakening of globalisation and a strengthening of the currents of nationalism, which had emerged prior to the global stop brought by the pandemic.

In South Africa, the need to push the reset button is more urgent than elsewhere. The country entered the COVID-19 crisis already in recession, with a growth forecast for 2020 of 0,4% by the SA Reserve Bank and 0,9% by National Treasury. Over the past five years the economy has been stagnant, GDP per capita has been in decline and unemployment – which hit 29,1% in the fourth quarter of 2019 – has been on the rise, climbing to 30,1% in the first quarter of this year.

Electricity supply constraints have cast a long shadow over the economy's growth potential. Public finances have been under pressure to an extent unprecedented during the democratic era – with the February budget projecting that the debt-to-GDP ratio would reach 71,6% over the next three years – on a trajectory that showed no sign of stabilising.

The COVID-19 crisis has blown all of these metrics further out, with the SA Reserve Bank now projecting negative GDP

> ‘While Ramaphosa has always been publicly supportive of Mboweni, he is also constantly mindful of the wider ANC dynamics. This makes policy reform slow and ponderous.’

growth of 7% for 2020 and rating agency Standard and Poor’s expecting that the debt-to-GDP ratio will reach 85% by 2023.

The difficulty in resetting the economy for South Africa is that the country has strong stakeholders, but whose interests are not well-aligned. It is no exaggeration to say that it is politics that has hampered South Africa’s ability to reach its potential, rather than economic policy, for at least the last decade. While there is a broad consensus that the levels of inequality – South Africa is by far the most unequal country in the world – are not sustainable, there is little consensus over what to do.

BACKLASH

While economic orthodoxy still holds sway in government and in ANC economic policy circles, it is not without contestation. Among the left – which includes some in the ANC, the SACP and labour federation Cosatu – there is a backlash against treasury policies, such as fiscal consolidation and measures to contain spending. South Africa’s sluggish growth rate is taken by these groups to be a consequence of economic orthodoxy that has failed and, while not an immediate threat, the ANC is increasingly vulnerable to the pull of populist ideas, dressed up in the rhetoric of economic transformation.

Further complicating this picture is that the ruling party itself is not united. The government at a leadership level – that is the cabinet – is not sufficiently focused, skilled or united to drive through a coherent programme. President Cyril Ramaphosa has wanted to lead from behind. Since becoming president in 2018 he has not pushed a firm reform agenda; his preference has been to tread softly on political ground and readily compromise when challenged, particularly by organised labour.

How the reset happens, which policy elements are emphasised and which reforms are possible will be a product of how these dynamics play out. That said, the state is weak, excessively bureaucratised and lacks the capacity to implement programmes – even where agreement is reached.

Tito Mboweni
SA Minister of Finance

REFORM, REFORM, REFORM

A raft of reforms is on the table. Last August finance minister Tito Mboweni published a growth strategy document, which in broad terms was adopted by the cabinet and the ANC. The reforms are pretty much the same structural economic reform measures that have been promised for successive years by successive finance ministers. Essentially, the idea is reduce the costs of doing business, modernise network industries, lower barriers to industry and promote export competitiveness.

Most notable for the mining and industrial sectors are network industries – such as energy, logistics (ports and rail) and broadband – all major constraints on growth. Mboweni’s reform agenda emphasises introducing competition and private participation, restructuring markets and lowering costs.

But progress has been painfully slow. Energy, which is the biggest binding economic constraint and top of mind for mining companies as costs continue to rise, remains weighed down by Eskom, where deep operational and financial problems endure.

Eskom restructuring – which is key to liberalising the energy market, increasing security of supply and relieving the stress on the fiscus – was identified as a top priority by Ramaphosa in his State of the Nation speech in February 2019. The decision to disaggregate the company into three – generation, transmission and distribution – came on the back of recommendations by Ramaphosa’s own expert task team. But almost 18 months on, little has happened. While Eskom is in safer hands with new CEO André de Ruyter at the helm, the unbundling has stalled and been shifted out by at least two years. A major milestone – the legal establishment of an independent grid owner and operator – is now only expected to take shape in 2022, with no firm date on final legal separation.

In the wider energy sector some regulatory reform has happened, although the impact for the mining industry could be less than initially thought. Energy policy in South Africa has been politically fraught with strong opposition from the left to independent power producers (IPPs), which is seen as amounting to “privatisation” of electricity. There is also still a vociferous nuclear lobby, even though the grand plan for a massive Russian nuclear build has been blocked.

Mineral resources and energy minister Gwede Mantashe has been cautiously picking his way through these dynamics. Given the urgency of the electricity supply constraint, due to political factors, Mantashe has moved very slowly to initiate new procurement from IPPs. This is finally on track, with a bidding process about to commence. It will, however, be several years before new plants come online as bidding, adjudication and financing must all be concluded before construction can begin.

YES, MINISTER?

For the mining sector, self-generation of electricity, which has also been opened up for licensing by Mantashe, shows some promise. However, because a large number of uncertainties remain in the regulatory environment, self-generation is still a costly and risky endeavour for most mining enterprises. It is still unclear, for instance, whether the National Energy Regulator of SA (Nersa) will approve mining self-generation projects as a matter of course, as these have not been explicitly provided for by ministerial determination.

In addition to this, projects that will connect to the Eskom grid must be licensed, for which the requirements – such as environmental approval and rezoning of land – are costly to undertake without certainty that the licence will be granted. Wheeling costs for the use of the grid are unknown and it is also uncertain whether generation projects built to supply mines will be able to sell electricity to other customers, beyond the life of the mine.

Gwede Mantashe
SA Minister of Mineral Resources and Energy

But although he has opened the door to more private sector participation, Mantashe has also made clear that he intends to keep his hand on the regulatory throttle. In a major policy change, he has cleared the way for municipalities to generate or purchase electricity from other sources. However, ministerial approval must first be obtained. Self-generation of over 1MW also requires application for a licence via the minister's office.

During his time as minister – which is only a little over a year in the case of the energy part of his portfolio – the changes to regulation demonstrate that Mantashe has an appreciation of the constraints facing the private sector. His support for the re-opening of mines during the COVID-19 epidemic was especially notable, coming at a time when fear of the epidemic was high and mining and living conditions made working safety difficult. While other cabinet colleagues showed excessive prudence, Mantashe was decisive that, because the mining sector faces a challenge for survival, a longer shut down would mean enormous job losses.

In April, the first full month of the lockdown, Stats SA recorded that mining production plummeted by 47%. Production though was already in decline due to shutdown's elsewhere in the world, and fell 18% in March. By June, mining was still operating at around 50% of capacity.

While Mantashe has shown a greater affinity and insight into the mining industry than many of his predecessors, there are firm limits to the extent to which he is prepared to accommodate private sector and investor interests. The clearest evidence of this is his commitment to transformation of the industry, especially of ownership.

The failure of the industry and government to reach agreement on the "once empowered, always empowered" aspect of the Mining Charter continues to overhang future investment. While encouraging noises were recently made from both sides that a court battle was best avoided, it is difficult to see where compromise might be possible. The ANC as a whole is firmly

'The difficulty in resetting the economy for South Africa is that the country has strong stakeholders, but whose interests are not well-aligned.'

committed to black economic empowerment, notwithstanding some of the negative effects of the policy on investment and the cost of government procurement.

Mantashe's political stance – which besides transformation also encompasses a suspicion of the market and a firm belief that the state should be a major participant in the economy – is reflective of the dominant politics within the ANC. While many in business had expected that Ramaphosa would counter these tendencies, he has turned out to be much more of a party man than anticipated.

While Ramaphosa has always been publicly supportive of Mboweni, he is also constantly mindful of the wider ANC dynamics. This makes policy reform slow and ponderous and, while for the most part it does eventually happen, the impact that an overall programme would have risks being lost.

As South Africa emerges from the lockdown, with the curve of the epidemic still ascending, ambitions for a reset are high. But even though the COVID-19 crisis should galvanise stakeholders into joint action, politics may well get in the way again. ■

TRUCE IN OUR TIME: HOW INDUSTRY AND UNIONS FIND THEY CAN AGREE

Despite fear and uncertainty around the economic fallout of the COVID-19 pandemic, there has been a notable absence of labour unrest in the mining sector. **ED STODDARD** explains why action being taken by both government and miners during this crisis bodes cautiously well for relations going forward.

Marikana protest

South Africa's main mining unions have expressed concerns about the sector's reboot in the face of the COVID-19 pandemic. The crisis has also seen labour, industry and government find common ground, which could herald a new era of cooperation after decades of mistrust and conflict.

Relations between the Department of Mineral Resources and Energy (DMRE) and industry have never looked rosier, despite outstanding issues around the Mining Charter. DMRE minister, Gwede Mantashe, a former miner and unionist who is a political heavyweight in the governing ANC, was a driving force behind efforts to allow the industry to reboot to 50% capacity in May when the hard lockdown was eased from "phase 5" to "phase 4". This came after coal mines providing Eskom, as well as some mechanised and open-pit operations in the iron ore and platinum group metal (PGM) sectors, had been allowed to operate in April.

People familiar with the matter say that the moves were met with resistance by some in the cabinet and the National Command Council, which is charged with overseeing the state's response to the pandemic, and Mantashe had intense discussions with unions and industry over the matter. The motive to keep some mines running and then to have a gradual restart were clear: the economy was cratering and South Africa was also losing vital foreign exchange. In 2019, mineral export sales amounted to almost R350bn and the sector accounted for 8.1% of GDP, according to Minerals Council data, as well as employing about 450,000 people. Keeping people at work at a time when unemployment, poverty and hunger were surging was a key concern of Mantashe's.

The main mining unions, the Association of Mineworkers and Construction Union (AMCU) and the National Union of Mineworkers (NUM), expressed strong opposition to the reboot. Yet, revealingly, it has triggered – as of late June – none of the unrest that has periodically rocked the sector in recent years.

Indeed, AMCU, headed by Joseph Mathunjwa – who sees the world through a prism of intense class conflict, African nationalism and evangelical Christianity – headed to court over the issue to demand that the DMRE gazette minimum COVID-19 guidelines. AMCU was smarting after a disastrous five-month strike in

> ‘Initiatives such as this are surely laying the foundation for improved labour relations in the mining industry.’

Sibanye-Stillwater’s gold unit that achieved nothing, and managed only moderate wage increases after months of talks with the newly-flush platinum sector. But Mathunjwa knew where to pick his fights and heading to court, with top human rights lawyer Richard Spoor leading the charge, was a sensible move.

In reality, the Minerals Council of SA and AMCU were not far apart on the issue. Many of AMCU’s demands for measures to contain the spread of COVID-19 in the mines were already being followed as operating procedures that the Minerals Council’s members were taking. The court ruled in AMCU’s favour, but the industry was largely on board. And its intensive screening and testing measures have helped to give an indication of the pandemic’s extent in mining communities.

The pandemic’s timing has also helped to ease potential tensions.

If it had struck a few years ago, the platinum sector for one may well have been crippled. It was burning cash at an alarming rate in the face of social and labour ructions, depressed prices and steadily rising costs, notably for power and labour. It certainly would not have been in a position to pay employees for staying at home.

Not all companies have done so, admittedly, but several have been in the position to do so because of the spike in prices and other initiatives, including a pivot to mechanisation where South Africa’s arduous geology allows. Anglo American Platinum (Amplats) to the end of May paid out an astonishing R1bn to employees who did not work because of the lockdown.

This needs to be put in some context. Amplats’ profits more than doubled in 2019, leaving its balance sheet with net cash of R17.3bn compared to R2.9bn at the end of 2018. Its total dividend for the year was a whopping R14.2bn. So the R1bn paid out to the end of May to employees who sat at home was 7% of what was paid to shareholders for 2019, and is an even smaller percentage of its net cash position. This state of affairs highlights two crucial things: first, that the company could afford to keep paying wages in the absence of productivity and, to its credit, did so. Secondly, it means that in cases such as this, the private sector is assuming the role of the state by providing a social safety net – again, because it can afford to in some cases. This stands in stark contrast to the increasingly indebted government.

Initiatives such as this are surely laying the foundation for improved labour relations in the mining industry. Companies that have not been as generous because of balance sheet or other issues may have a bumpier post-COVID ride. But one of the remarkable things about 2020, at least at the midway point of this tumultuous year, has been the *absence* of labour unrest. And this is despite understandable worker fears about the pandemic, heightened prospects for wider social unrest and vocal union opposition to the sector’s reboot.

Such combustible material would typically fuel the flames in South Africa’s fraught social environment. That it has not done so yet bodes cautiously well for the future. ■

JILTED BY THE LOC

WHY MARRIAGE AFTER GLOBAL ISOLATION IS JUST WHAT THE DIAMOND SECTOR NEEDS

By DAVID MCKAY

The onset of COVID-19 at the beginning of the year stopped the potential recovery of the this hiatus could now provide the industry with much-needed momentum as engagements

The wedding economy is estimated to be worth $300bn annually with a host of industries, from travel and hospitality to the garment sector, hanging on to its finely-tailored coattails. Perhaps no industry is more desirous, therefore, of sweet nuptials than the jewellery sector – diamonds in particular.

The last three years have been torrid for the global diamond sector. De Beers exemplified the rut: its 2019 profit of $558m was the lowest in a decade. A sales upturn in January suggested the beginning of the long-anticipated recovery, until COVID-19 sent consumers from high street into lockdown.

Unpolished or rough diamond sales to the secondary sector, the cutters and polishers who like to inspect goods in person, were stopped in their tracks. Botswana, where De Beers convenes ten sales meetings a year with selected buyers, closed its borders. Other miners ran into similar travel bans as the pandemic tore through the world.

Yet the forces that brought the diamond sector to a halt in March might yet provide the seeds of its recovery.

The Natural Diamond Council, formerly the Diamond Producers Association, plans to spearhead a new campaign targeting loneliness by "... accessing pent-up demand for meaningful personal connections" as a result of lockdown or self-isolation.

"The way we're putting it is that life is fleeting and, therefore, you want to make sure that the people you love know you love them," says Mark Cutifani, CEO of Anglo American, the UK-listed company that owns 85% of De Beers. "And what better way to say that than with a diamond expressing that affection?"

He thinks the diamond sector is due to storm back in the fourth quarter. Seasonal festivals that normally represent the high point in annual diamond sales, such as Diwali and Thanksgiving, will be given extra momentum by unsuppressed retail enthusiasm. It will resume the improvement in customer sentiment that was already underway at the end of 2019, says Cutifani. Anglo plans on spending R250m a year on marketing.

Reticence among consumers to embark on annual holidays, especially international travel, will also create more space for discretional spend – the area in which luxury products traditionally compete.

> 'We suspect a lot more money will be spent on diamonds than there will be on an overseas holiday.' – Cutifani.

"We suspect a lot more money will be spent on diamonds than there will be on an overseas holiday," says Cutifani. "There will likely be quite a strong recovery in diamonds because that's what we've seen in the past," he says. "Weddings have been postponed, engagements, big events have been postponed; people are now starting to celebrate and we're already starting to see bridal demand pick up in the US."

There's good reason to hope so. Lucara Diamonds, a Toronto-listed firm that operates the Karowe diamond mine in Botswana, was on the tip of approving a $514m underground expansion prior to COVID-19. The company has no debt, but it has conservatively suspended its dividend programme to make way for the expansion. Capital expenditure had been limited for this year, but CEO, Eira Thomas, says the company is now running high and low scenarios on what it might be able to afford.

"I would say realistically, within the next eight weeks, we will be putting the pin in the wall on the plan of final anticipated spend," says Thomas. "But the good thing is, either way, the plan can accommodate a minimum spend."

As with every other diamond producer, rough sales were also impossible for Lucara in the context of border closures and lockdown. The Botswana government permitted the company to send stones to Antwerp, home to one of the world's largest diamond bourses, but it's no substitute for the real thing.

KDOWN

diamond sector in its tracks. However,
, nuptials and celebratory events resume.

Lucara was additionally frustrated in its efforts to get an online diamond auction system – blockchain technology it called Clara – into fully functioning shape. Clara is ideal in lockdown as no physical selling is required – sales grew a fifth in a quarter – but a thrust to introduce third-party rough diamond sellers, aimed ultimately at growing demand, failed to materialise.

"COVID-19 really put a dampener on that just with restrictions on people and goods moving around," says Thomas. "Some of our fellow producers just decided that they were going to hunker down and protect the balance sheet and that it's not the time to trial a brand-new sales process." She's confident that third-party sales will happen though.

Thomas shares Cutifani's optimism for the market in general. Existing production is set to shrink with the closure of Rio Tinto's Argyle mine in Australia while the older, more economically powerful consumer cohort recognises in diamonds a private, legacy power. They may spend less on holidays and the wardrobe, given decreased social opportunity for display, but diamonds "... are things that they can invest in and get passed down through generations," says Thomas. "They are a way to commemorate family and the importance of being together right now and what that means."

Post the pandemic, when life begins to resemble some level of normality, the diamond sector will emerge with more focus on its collective mind. Thomas thinks producers will channel themselves and work "more closely with the brands". Anglo's Cutifani also thinks structural changes will come.

As early as 2019, there was speculation De Beers intended to refine the process through which it sold rough diamonds to sightholders. Details of what De Beers is planning remain sketchy, but it could include slimming back its preferred buyers, a process it has conducted once before. "We think, ultimately, the way diamonds get to market needs to be more efficient and certainly the value needs to be protected," he says.

"It's an industry where our main concern is people sell diamonds too easily and don't reflect how they are." ■

NEW BOSS, OLD PROBLEMS: CAN DE RUYTER SAVE ESKOM FROM ITSELF?

By MARIAM ISA

While the COVID-19 lockdown has given the power utility temporary respite, South Africa's energy crisis has not gone away and Eskom's inability to satisfy a return in demand remains a concern.

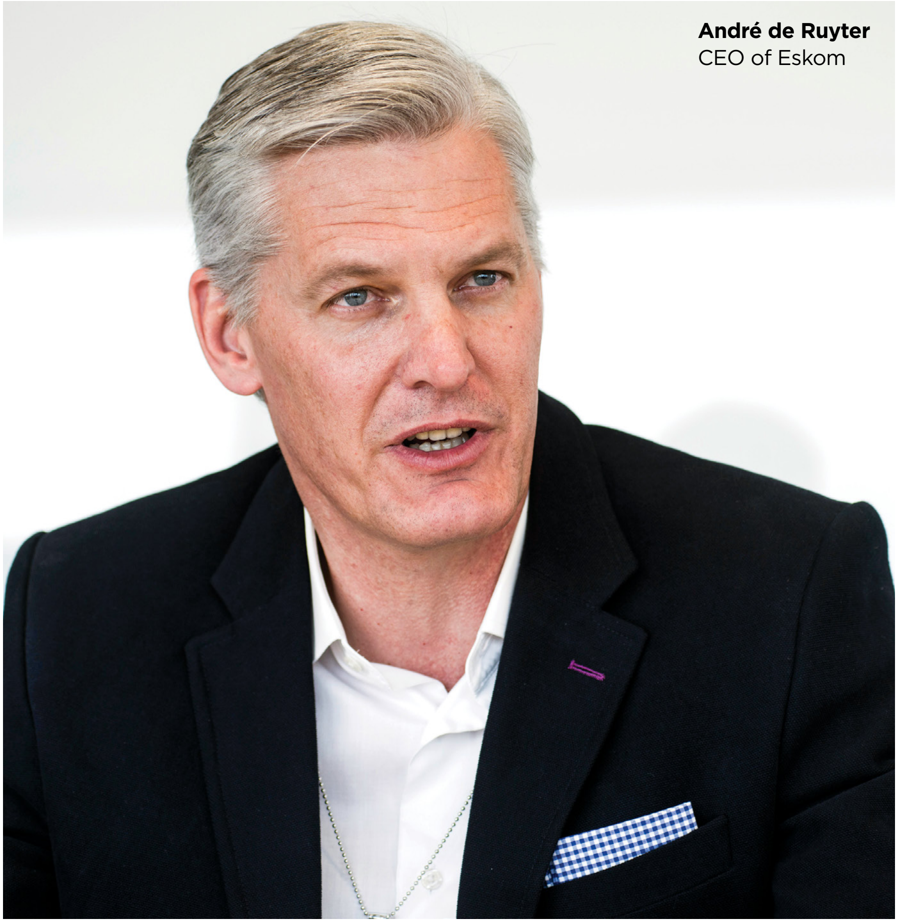
The devastating impact of South Africa's COVID-19 lockdown on economic activity has given Eskom the opportunity to make headway with critical maintenance at its ageing power plants, and to tackle major design flaws at Medupi and Kusile, the new additions to its coal-fired fleet.

Progress with the work, and the likelihood of a sluggish recovery in the country's economy, have allowed the utility to claw back lost capacity and significantly reduce the risk of a resumption of rotating power cuts – known as load-shedding – in the coming year.

But supply constraints will reassert themselves as growth gathers momentum, and a new crisis has emerged within Eskom's decaying distribution infrastructure, which is being overloaded and disrupted by illegal connections, theft and vandalism in crowded communities.

The utility has begun to cut power to protect the system in affected areas during peak periods, to try and stem a spike in explosions at transformers and small substations that have caused fatalities and often leave the surrounding communities without power for days.

Eskom says these problems cost its network in Gauteng alone R1bn a year, and that power cuts to overloaded areas will have to continue



André de Ruyter
CEO of Eskom

for the foreseeable future – which poses another challenge to stable power supply and raises the risk of deepening social unrest.

Nonetheless, the reprieve offered by lockdown restrictions has allowed the utility to push ahead with some of its most pressing maintenance without having to implement load-shedding to broad swathes of its customers.

"COVID-19 has helped us quite a lot. If we didn't have the opportunity during lockdown to do short-term opportunistic maintenance we would have been in big trouble," Eskom COO Jan Oberholzer said in an interview.

In January, Eskom was forced to impose its severest power cuts on record, reducing supply by as much as 6,000MW – more than 13% of its installed capacity – just as commercial industries and business resumed operating after the year-end holiday season.

The utility's new CEO, André De Ruyter, warned in early March that if Eskom could not push ahead with a ramped-up maintenance schedule requiring some low-level power outages, intensive bouts of load-shedding could carry on until the middle of 2021.

But the sharp drop in economic activity and electricity demand after the lockdown began on 27 March allowed the utility to increase planned maintenance to 15% of its installed capacity of about 44,000MW during April, well above a normal goal of 10%.

However, the fall in electricity sales over the two months also cost Eskom R5bn, putting a large dent in its cost-cutting drive and pointing to a likely net loss of more than R20bn during the financial year, which ends in March 2021.

Sales were expected to return to projected levels by the end of August – provided all big consumers were fully operational, Oberholzer said. But with the economy sliding into its worst recession in seven decades, a recovery at this pace is unlikely.

Economists say it will take three to four years before output returns to the levels seen in 2019 – which means that Eskom can pursue what it calls "reliability" or long-term maintenance with the aim of removing any risk of load-shedding by the end of August 2021.

Oberholzer said the drive to stabilise the system, including the problems with distribution, would add another R30bn over the coming five years to the utility's budgeted maintenance spending, which amounted to just R8bn in 2019.

'If we didn't have the opportunity during lockdown to do short-term opportunistic maintenance, we would have been in big trouble.'
– Oberholzer

The intention is to fund this through cost-cutting, rather than relying on the state for bailouts, which De Ruyter has insisted will not be needed this year. Oberholzer said the focus will be on saving money on procurement of goods and services.

Over the next two years, Eskom intends to begin the conversion of its diesel-fired Open Cycle Gas Turbines (OCGTs) so that they can run on gas, he added. This will make them much less expensive to operate and will also significantly boost their capacity from 2,409MW at present.

Intended only as backup, the OCGTs have been utilised heavily in the past couple of years to either avoid or ease the intensity of load-shedding, costing Eskom R4.2bn annually.

The utility was forced to bring them online again when a cold front hit Gauteng in mid-June 2020, unexpectedly pushing demand up by 2,000MW during the evening peak, and prompting Eskom once again to ask customers to reduce their power consumption.

University of Cape Town emeritus professor Anton Eberhard, the chair of a presidential task team set up to resolve Eskom's financial and technical challenges, said this had revealed the fragility of South Africa's power system and was a reminder that the utility did not have enough operational power capacity or operating reserve margin to support an economic recovery.

"We are already late in guaranteeing planned capacity additions for 2022 and it's almost certain that we'll experience further load-shedding over the next three years," he said.

No new grid-connected electricity generation capacity has been procured by Eskom since November 2014, as the utility's former CEO Brian Molefe halted a programme of buying what was mainly renewable energy from Independent Power Producers (IPPs).

At present, IPPs provide more than seven per cent of Eskom's electricity. Oberholzer hopes to create a reliable capacity buffer of 2,000MW at the end of the current financial year, through increasing the Energy Availability Factor (EAF) of Eskom's coal-fired plants, which has drifted lower in the past decade due to neglect and mismanagement.

Eskom's EAF declined from 78.61 in the calendar year 2017 to 66.96 in 2019, then sank to 64.99 in the first 24 weeks of this year, according to Chris Yelland, MD of EE Business Intelligence. "Unless new generation capacity comes onstream, the best we can hope for is that the EAF stabilises at current low levels," he said.

But Oberholzer predicts that it will climb to 69% by the end of the 2021 financial year, and is targeting an EAF of 72% in FY 2022 and 74% in FY 2023.

Another work in progress is fixing the design flaws at Kusile and Medupi, which, with a design capacity of 4,800MW each, are among the biggest coal-fired power stations in the world. Approved in 2007, they were meant to have been completed by 2015, at a combined cost of R150bn.

The latest cost to completion estimate declared by Eskom in its FY 2016 results was more than R300bn, which excluded interest accrued during construction, outstanding claims by contractors, and correcting major design flaws at Medupi and Kusile.

Oberholzer said that addressing the problems at the two plants would require about R300m for each of their 12 units, with the costs initially split evenly between Eskom and Mitsubishi Hitachi Power Systems, which won the contract to build their boilers.

The last unit at Medupi was expected to be completed by February 2021 and the work at Kusile would be finished in May 2024, he added. The timeline for Kusile does not bode well for the additional power needed by a growing economy.

In December 2019, President Cyril Ramaphosa announced plans to urgently procure 2,000MW of new capacity from private producers to help close the widening gap between supply and demand for electricity. Six months later the process had not yet begun, and it is likely to take several years before that power is available

Roger Baxter, CEO of the Minerals Council of SA, said that with 10 Gigawatts (10,000MW) worth of Eskom's old coal-fired plants set to be decommissioned over the coming decade, it was essential to get replacement capacity onstream quickly – and the only way was to make it easier for the private sector to generate its own power.

"At the moment people are just focusing on making sure that they have viable businesses when the COVID-19 crisis ends, but the energy crisis hasn't gone away," he said.

"It has given temporary respite to Eskom and given them time to improve their reliability. But demand will come back and when it does, there will be an escalating amount of pressure on government to think differently about what other sources of supply can come onstream."

Baxter said that in the mining sector alone, companies had indicated that they were willing to invest in 2.3GW of their own plants to supplement power supply – of which 1.8GW would be grid-tied solar and wind power, and the remainder coal. Much of that could be brought online within 18 months, he said.

According to the South African Photovoltaic Association, there is an estimated 1.1GW of embedded generation already installed within the private sector, but regulatory hurdles are holding up installations of more than 10MW, which would provide a much bigger power boost to industry.

"Eskom will remain a major player in the electricity supply industry, particularly in generation, for many years to come, but South Africa has to diversify its electricity supply base. That's going to require private investment in private generation, and that competition will be in everyone's interests," Baxter said.

Roger Baxter
CEO of the Minerals Council of SA

De Ruyter, who took up his post in January 2020, has said that the days of a "vertically integrated, monolithic" utility like Eskom were over and he supports the government's plans to break the utility up into generation, transmission and distribution entities.

But the schedule to complete the restructuring, which would give the private sector and municipalities bigger roles in generation, has been pushed out, with the Department of Public Enterprises setting a completion target of March 2023. ■

MIND THE DEATH SPIRAL

Eskom is likely to need another bailout from South Africa's government next year as the impact of the country's COVID-19 lockdown on the economy curbs its electricity sales for months to come.

National Treasury has forked out rescue packages of R56bn for fiscal 2021 and R33bn for fiscal 2022, and the utility has already indicated that it will still have to borrow more money to meet its funding requirements over that period.

But its plans to raise R30bn in additional debt over each of the next two years are likely to fall short, and the amount will have to rise to between R45 and R50bn for each year, Standard and Poor's analyst Omega Collocott said in a research note.

Peter Attard Montalto, head of capital markets research at Intellidex, has a similar view. He estimates the total loss to Eskom from lower-than-expected economic growth at R15bn, which would lead to a net loss of about in R20bn in fiscal 2021.

This would probably be covered with the funds available but "given lower revenue next year, Eskom will likely need to get an additional R12bn or so of bailout for 2021/22," he said.

Eskom needs to fork out between R70 and R90bn in interest and principal repayments on its existing debt over each of the next three years, and faces substantial refinancing risks in August 2020 and in January and February 2021.

At the same time, local credit markets are less receptive to new borrowing from the utility, which is already burdened with R450bn of debt.

Eskom hopes to generate more revenue through raising its electricity prices, and is involved in three court cases against the National Electricity Regulator of SA, which could result in retroactive tariff hikes for consumers and industry.

But analysts warn that electricity prices, which have already quadrupled in the past decade, could be approaching the so-called "tipping point", which would push Eskom into a classic utility "death spiral" — the more prices rise, the more customers leave the grid, and the more its revenues fall.

"Reliability of power supply is one issue, but if the price of electricity is too expensive and it keeps going up at unsustainable rates, you just won't get investment in electricity-intensive industries," said Roger Baxter, CEO of The Minerals Council of SA.

Financial markets are keenly waiting for a restructuring of Eskom's debt, which is expected to result in R250bn being taken off its balance sheet, either to a special purpose vehicle or a conversion to South African government bonds.

Treasury has said this must wait for the utility itself to be restructured as planned into three separate units – transmission, generation, and distribution.

However, credit rating agencies say that dividing the debt between the three units may result in a downgrade as it could be tantamount to a default on Eskom's financial obligations. ■

STOP!
CORONAVIRUS

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COVID-19 RESPONSE

WORKING TOGETHER

The COVID-19 pandemic presents society with the greatest health threat in living memory. We recognise that the virus is pervasive, with the potential to spread quickly through workplaces and communities. We, as a company, are committed to working closely with our stakeholders in navigating through this challenging time.

Our business operates within and as part of our communities and we know they need our support now more than ever before. Our approach has been a collaborative one underpinned **by extensive engagement with national and provincial government and health authorities, employees and communities**. Our COVID-19 support efforts have been **focused on strengthening healthcare systems and community response mechanisms**. We actively looked for places to help in our communities and to supplement local efforts already underway.

Some of our efforts include the **provision of hospital facilities and beds with capacity to treat around 600 patients** located near our West Vaal operations near Orkney in the North West Province and the West Wits facility near Carletonville/ Merafong in western Gauteng.

PARTNERSHIPS

We have **actively pursued partnerships to increase the impact of our relief efforts** in the provision of much needed resources to state hospitals and communities such as sanitizer, masks, sanitation facilities, education materials and relief parcels to those people who need it most.

R20 million

As a company, we have **donated R20 million to President Cyril Ramaphosa's Solidarity Response Fund** which provided rapid and targeted actions to support the healthcare sector to flatten the curve of infections and provide humanitarian support to vulnerable households and communities.

Solidarity Fund
Unity in action

Addressing the COVID-19 pandemic requires co-operation and co-ordination of efforts by all stakeholders to ensure that the necessary resources are available to address the suffering and disruption to human lives.

FUTURE OF SA's COAL IS NOT WHAT IT USED TO BE

The future of the once-booming South African coal industry is no longer what it used to be or, to use another well-known old saw, the 'winds of change' seem to have finally caught up with the sector that produced 259 million tons (Mt) of coal in 2019 and earned total revenues of R139.3bn, writes **BRENDAN RYAN.**

This development is not new because the trend has been noticeable for a while. According to Minerals Council of SA statistics, net investment in the coal industry has dropped from R4.5bn in 2010 to R2.5bn in 2018 despite the fact that more than 70% of the country's power is generated by burning coal.

But the last couple of years has seen a tsunami of adversity for South African coal producers whipped up by, among others, rampant "greenies" who have successfully built up pressure on financial institutions, both worldwide and in South Africa, getting many to agree not to fund new coal projects.

The "greenies" through legal challenges have also managed to block development of one of South Africa's few remaining thermal coal independent power producer (IPP) projects, which is the proposed 1,500MW Thabametsi plant in the Waterberg.

As of March, Exxaro Resources – which will develop the mine while partner Marubeni will build the power station if it ever goes ahead – was "still hanging in there", according to head of coal operations Nombasa Tsengwa. But there's a "drop dead" clause in the contract, which kicks in at the end of 2020 and could kill the project in the absence of clear, favourable indications from government.

The move to renewable energy in the developed world has drastically altered the customer base for South African coal exports. A decade ago the coal went largely to customers in Europe but now go overwhelmingly to Asia, which took 91% of the 72Mt of coal exported by the Richards Bay Coal Terminal (RBCT) in 2019. Two countries – India and Pakistan – dominated, with India taking 41.6Mt and Pakistan 12Mt.

The business bulwark for the South African coal producers has always been Eskom, which last year bought 118Mt of coal equivalent to 45% of South Africa's total coal production to be burnt in its thermal power stations.

But that business is being eroded. Volumes of coal required by Eskom in the future are being revised downwards because greater quantities of power will be generated from renewable sources of energy.

That's the clear message following the announcement by mineral resources and energy minister Gwede Mantashe in February when he said the mining industry would be allowed to generate its own power without the need for government licences.

According to Minerals Council president, Mxolisi Mgojo, that is going to take the generation of about 2.4GW of electricity away from Eskom, and the mines intend generating that power using solar installations.

Mgojo also pointed out Eskom will retire some five power stations generating between five and seven gigawatts of power over the next ten years and commented: "... there is no talk about any new coal-fired power stations that will be built requiring Eskom to take any additional coal because they will be superseded by new forms of energy coming onto the grid."

Minerals Council CEO, Roger Baxter, reckons the freedom granted to the mining industry to generate its own power is likely to be extended to other sectors as well commenting, "... there is a general view that own generation is going to be allowed for everybody."

Add all that to the slump in power demand caused by the dismal state of the South African economy and you have a situation where previous forecasts of steadily growing energy demand requiring constant development of new coal mines simply does not apply anymore.

'If you have private funding, along with the right technical team and the right reserves, then you are going to make money in the coming years in South Africa and that's why I am optimistic. I see a great future for my companies here.' – Bayoglu

Vuslat Bayoglu
CEO of Menar

ESKOM. LOVE. HATE...

Eskom says it is aware of the situation but will not quantify it at this stage. According to spokesman Sikonathi Mantshantsha: "We are running some scenarios and projections but we are not at liberty to share them at this stage. We will advise stakeholders as and when it is appropriate."

The South African coal producers have long had a "love-hate" relationship with Eskom. They loved the regular income from the traditionally risk-free business – until the Zuma "state capture" era at any rate – that supplying Eskom power stations on a long-term contract offered.

In the 1980s the major coal producers managed in many cases to 'piggyback' successfully on that steady business by developing mines for the more lucrative – but more volatile and risky – export markets. It was a game-changer that led to the rapid development of the Richards Bay Coal Terminal into one of the world's leading coal export businesses.

They disliked the low prices paid by Eskom and that sentiment intensified from about a decade ago when Eskom controversially changed its procurement policies with the aim of pushing more of its business towards junior black economic empowered (BEE) coal miners.

Eskom's two main changes were to stipulate that companies signing new coal supply contracts had to be 50% plus one share BEE controlled and the utility also moved to increase the volume of coal bought on short-term supply contracts from new BEE coal juniors by cutting back on volumes taken on long-term contract from its traditional suppliers.

The new policies backfired spectacularly on Eskom, which has since rescinded both, but the damage has been done and much of it is permanent.

The BEE control demand – made despite the fact that South Africa's Minerals and Petroleum Resources Development Act stipulated only a 26% BEE stake in the country's mines – was rejected by the coal majors, most of whom have since disposed of their Eskom business.

First out was Anglo American, which sold its Eskom-related collieries to Mike Teke's Seriti Resources and they were followed by

Billiton, which unbundled its South African coal business to South32 which is currently in the final throes of selling it – also to Seriti.

The move to short-term coal supply resulted in a sharp hike in the prices paid by Eskom, which was now exposed to domestic spot market prices instead of the low, long-term contract prices it had negotiated with its traditional suppliers.

Eskom also found itself short of coal because the new suppliers often failed to deliver the contracted volumes and there were often problems with the quality of the coal.

But the next fallout from Eskom's prior decisions is looming, and that is the problem faced by the new breed of South African coal companies: to raise the finance needed to build such new projects as may be required.

NEW ENTRANTS

The "newbie" juniors and mid-tier miners do not have the track record and the strong balance sheets of the majors that have left the business. They are also operating in a financial environment which is actively hostile to funding projects like new coal mines and coal-fired power stations, given their negative carbon emission connotations.

In the past, Eskom has put up its own money to build new collieries, which were then run by the coal companies on a "cost plus" basis but cash-strapped Eskom no longer has that financial option.

According to new Eskom CEO, André de Ruyter, "… financial institutions moving away from funding coal projects is an accelerating global trend. It's clear, increasingly, as we retire older power stations, the availability of funds to replace such capacity with coal-fired capacity – whether by Eskom or private investors – is going to become constrained."

Despite all of this two businessmen heading up new entrants into the coal sector – Seriti CEO, Mike Teke, and Menar MD, Vuslat Bayoglu – remain steadfastly optimistic on future prospects.

> 'Cennergi is going to be the stepping stone into our whole renewable energy strategy.' – Mgojo

Menar controls three South African coal operations – Kangra, Canyon Coal and Zululand Anthracite – and, according to Bayoglu: "If you have private funding, along with the right technical team and the right reserves, then you are going to make money in the coming years in South Africa and that's why I am optimistic. I see a great future for my companies here."

Teke, who last year declared he was a "coal bull", says he has not changed his opinion – even though circumstances have forced him to revise his plans to list Seriti, which was scheduled to happen this year.

He comments "… coal still has a role to play and I still see coal as an attractive business for anyone who is cost competitive, reliable and who understands that best mining practices will win the game."

Both also reckon there are ways around the banks to get finance and point to innovative developments such as "partnerships" with equipment manufacturers; pre-payments from coal trading firms and "buy-own-operate-transfer" deals to build installations like washing plants and rail sidings.

Leading the South African charge into renewable energy is Exxaro – which is black-controlled and already supplies Eskom's two newest and most important power stations, which are Medupi and Kusile.

In March, Exxaro announced it had handed back to the Department of Mineral Resources and Energy the mineral rights to two major chunks of coal resources in the Waterberg, which it no longer intended developing.

The vehicle for Exxaro's renewable drive is wholly-owned subsidiary Cennergi but, as of March, Mgojo was keeping his cards close to his chest. He commented that: "Cennergi is going to be the stepping stone into our whole renewable energy strategy, but I cannot give you any specifics now. We are investigating various options and we are not in a position to share what those are."

The major problem to arise next from all of this is one that faces Anglo American in the proposed disposal of its remaining South African coal assets, which are its export collieries. According to Anglo CEO, Mark Cutifani, the group's preferred option would be to demerge the division and list it separately on the Johannesburg Stock Exchange.

Those are money spinners under normal conditions, but current conditions are far from normal. The coal export market has collapsed

Mike Teke
CEO of Seriti

and there appears to be a dearth of buyers in South Africa with the required financial "wherewithal" to buy them.

The two "obvious" buyers are Seriti and Exxaro, but neither appears that interested. Teke has effectively ruled out bidding because of likely problems with the Competition Board. Owning the export mines of both South32 and Anglo would make Seriti just far too dominant in the market.

Exxaro previously has been keen on getting greater exposure to the coal export market, but that is no longer the case. Mgojo says the only asset he might be interested in is Anglo's Mafube colliery, which is a 50/50 joint venture with Exxaro. He's keen to own all of it.

Glencore and partner African Rainbow Minerals are not interested either, according to ARM CEO Mike Schmidt. Glencore's strategic decision on its coal business is to wind it down over the economic lives of the group's remaining collieries.

So there is a dearth of new coal projects. In fact, there are just two anywhere near start-up at present. One is Resource Generation's Boikarabelo mine in the Waterberg, which has been stalled for more than five years because of issues around finding the necessary R4.2bn to build the mine.

Then there's MC Mining's Makhado coking coal mine in the Soutpansberg section of Limpopo Province, which only needs to find \$52m (about R880m).

Both companies say they are "almost there" in finalising their respective funding packages, but they have been saying that for a while.

All in all it's a far cry from when "King Coal" was a force to be reckoned with in the South African economy. ■

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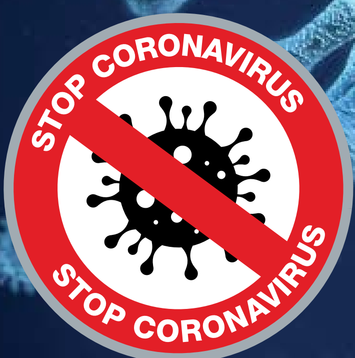

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SMOKE IN OUR EYES

By CHARLOTTE MATHEWS

After committing to greenhouse gas emissions limits in 2009, these targets are up for review – with industry looking for a more consultative approach this time around. However, South Africa remains coal-dependant, and Eskom still runs a fleet of ageing coal-fired power stations.

In the next few months, broad discussions will begin on revising the greenhouse gas emissions (GHG) limits to which South Africa was committed – after very little consultation – by minister Buyelwa Sonjica at the December 2009 Copenhagen COP Summit. But can we live up to our promises?

Sonjica committed South Africa to keep its annual range of emissions between 398 and 614m tons (Mt) of CO_2 equivalent (CO_2e) in the period 2025-2030 and contain them to 212-428Mt CO_2e by 2050. These targets were considered over-ambitious in some quarters and under-ambitious in others.

At the upcoming COP 26 conference, originally due to take place in Glasgow in November this year, but now postponed for a year, President Cyril Ramaphosa has committed to presenting new peak, decline and plateau targets.

"I agree there should be public consultation. It is a national target and will need buy-in from society," says Louise Naudé, WWF-SA Programme Manager: Low-carbon Framework. She believes South Africa could do better, and save money, by moving to almost 100% renewable power generation.

After ten years of sluggish economic growth, South Africa's coal-dependent economy appears to be staying within its 2009 commitments. That's *appears to be* because measurements are incomplete, and data is not easy to access. The biggest emitter of greenhouse gases in South Africa, Eskom, continues to run a fleet of ageing coal-fired power stations, one-third of South Africa's liquid fuels are derived from coal, while government has continuously delayed rolling out renewable power or a gas economy.

In 2015, the last time an in-depth GHG measurement report was made public, South Africa's peak emissions, excluding forestry and other land use, were estimated at 541Mt of CO_2e. Of that figure, 430Mt, or 79.5%, came from the energy sector (electricity generation, oil refining and transport). On a per capita basis, South Africa is the world's

Buyelwa Sonjica
Former Minister of Water and Environmental Affairs

tenth-largest GHG emitter, according to the Union of Concerned Scientists.

Eskom accounts for 42% of South Africa’s GHG emissions and Sasol (mainly because of its coal-to-liquids or CTL technology) accounts for about 11%.

In April this year, the Centre for Environmental Rights (CER) successfully won an appeal against the Department of Environment, Forestry and Fisheries’ (DEFF) refusal to release the detailed annual reports submitted by 16 of South Africa’s biggest GHG-emitting companies, which included Eskom, Sasol, ArcelorMittal SA and Anglo American.

Nicole Loser, an attorney for the CER’s Pollution and Climate Change Programme, says the listed companies report voluntarily to the public on their emissions and targets. The available information is not necessarily comparable because it covers different year-ends or levels of detail, unlike the annual reports submitted to DEFF. For example, ArcelorMittal’s head office in Luxembourg reports for groups of countries, so there is no detail available on emissions from the South African operations.

Leanne Govindsamy, head of the CER’s Corporate Accountability and Transparency Programme, says companies need to disclose their climate change risks and how they are responding so investors, communities, civil society and the media can engage with companies that do not show a willingness to reduce emissions and manage their risks.

South African companies agree with government on an annual “carbon budget”, or amount of CO_2 they will emit in the forthcoming year. Under the Climate Change Bill, disclosure of this budget becomes mandatory. That would have happened in 2020 but the bill is expected to be enacted this year, so mandatory disclosure will only occur in 2021.

Naudé says one of the issues that has held up the passing of the bill is the business sector’s intense opposition during Nedlac discussions to the imposition of penalties on companies that exceed their carbon budget. The business sector has argued that the carbon tax (introduced from July 2019) is already a punitive measure.

She says the good news is that “some companies understand that we have to get to net zero emissions by 2050, are standing up for that, taking own action and collaborating with others to make it happen”.

EMITTERS WITH A CAPITAL ‘E’

Eskom’s annual report for the year to March 2019, the latest available, says its CO_2 emissions as a group were 220.9Mt, up from 205.5Mt in 2018, although it burnt less coal. It also emitted more SO_2 and NO_2. Up to 2018, its emissions were falling, but this was because it was generating less electricity.

Its average emissions across the fleet, according to a spokesman, are 1kg/kWh.

Eskom says its emissions remain high because of its dependence on coal, which provides base-load power for the country. However, it says the trade-offs for South Africa are that coal-fired power is more affordable than renewable power (although it admits this is changing) and coal mining employs over 80,000 people. It says its main strategy to reduce emissions is to drive energy efficiency, both for itself and its customers.

For economic reasons, Eskom has put 14 less efficient units, totalling 1,969MW, in reserve storage. It says it is looking at options to use this infrastructure in a way that mitigates socio-economic impacts and is more environmentally friendly. It has installed solar PV at two power stations, Lethabo (575kWp) and Kendal (620kWp) to reduce the auxiliary loads.

Nicole Loser is an attorney for the CER’s Pollution and Climate Change Programme

“The need to transition from coal-fired power production to ‘greener’ energy over time is well understood by Eskom,” a spokesman says. “As the owner and operator of the country’s coal power stations, Eskom has a key role to play in this transition. An additional role for Eskom in the transition, namely in the roll-out of renewable energy technologies, is certainly possible. This would, however, require approval by the relevant authorities.”

In its June 2019 financial year, Sasol published its first *Climate Change Report*. It says it has cut GHG emissions by about

13%, or 10Mt, since 2004 and it aims to reduce its absolute GHG from its South African operations by 2030 by at least 10% off the 2017 baseline. In 2019, Secunda was responsible for 84.9% of the group's Scope 1 and 2 emissions.

Sasol's two main challenges are its dependence on coal as a feedstock and the lack of alternative energy sources in South Africa, especially for Secunda. It has been improving its energy efficiency, reducing process emissions and installing other sources of energy, such as the two 10MW solar PV plants at Sasol and Secunda.

Sasol says the most robust parts of its business in a low-carbon future will be its gas value chain and its chemicals operations.

Without external compulsion from government, Eskom and Sasol will make no drastic changes. Government initiatives could include punitive environmental taxes or decisive action to install enough renewable power to make Eskom's coal-fired power stations unnecessary. ■

RENEWABLE HOPE

Why the government is dragging its feet in procuring more green energy as per the Integrated Resources Plan is unclear, but it seems progress is underway for the development of renewable technologies.

South Africa's previously successful renewable energy independent power programme (REIPP) fell on its face about five years ago, when government halted Round 4 bids for political reasons.

That programme resumed two years later. At end-June 2019, South Africa had 47,970MW of installed electricity, of which 3,976MW (8%) came from renewables.

Despite the approval of South Africa's Integrated Resource Plan 2019 late last year, and the country's dire need for more power, Minister of Mineral Resources and Energy Gwede Mantashe has fallen inexplicably silent on launching Round 5 (to procure 1,600MW of wind and 600MW of solar power).

Louise Naudé, WWF-SA Programme Manager: Low-carbon Framework, suggests the reason for the delay is "competing interests".

"There are those with interests in coal and others with genuine concern for the workers. Then there are others that don't want the private sector to take control of electricity generation, they believe it should remain under government control."

Ntombifuthi Ntuli, CEO of the SA Wind Energy Association (SAWEA), says there are encouraging signs of progress. She expects renewable energy will form part of the post-COVID-19 lockdown economic stimulus package, since it is infrastructure investment that does not require government capital.

Wido Schnabel, chair of the South African Photovoltaic Industry Association (SAPVIA), says he cannot guess the reason for delaying Round 5, but there's demand for renewable energy solutions from large industries represented by the Minerals Council of SA and the Energy Intensive Users Group. In the last ten years, 1-1.2GW of solar PV has been installed by office blocks, farms and shopping malls.

But the Nersa licensing regime is far too onerous, Schnabel says. Projects generating just over 1MW have to go through the same lengthy application process as large-scale installations.

At the Mining Indaba in February, Mantashe committed to lifting some of the restrictions on embedded generation and speeding up the licensing process. But nothing has happened.

Schnabel says renewable technology is improving all the time. The costs have dropped and will continue to do so over the next couple of years. At the moment, the average global price for solar PV is US3c/kWh. Battery prices are about US9c/kWh. Solar should be combined with at least four hours of battery storage to cover peak demand and night-time demand in South Africa. Together, the costs are about US7,5c/kWh in 2019.

"We believe that by 2022 the price of batteries will come down to US6c/kWh and solar will fall to US2c/kWh, to give a total cost of US5c/kWh. That would make solar with batteries competitive with gas power," Schnabel says.

Schnabel says what the battery technology of the future will be is unknown. It could be anything from lithium-ion to hydrogen fuel cells or Vanadium Redox Flow Batteries (VRFBs), or something completely different.

Hydrogen SA (HySA), established by the Department of Science and Technology, has been researching hydrogen and fuel cell technologies for over 12 years. It is looking at a hydrogen-based power source that could be a cleaner and quieter alternative to generators; using hydrogen in combined heat and power units that could provide decentralised power and heating for buildings; and fuel cell vehicles.

This research, in which some of South Africa's platinum mining companies are involved, is intended to grow the market for platinum as a catalyst in the fuel cells.

AIM-listed junior miner Bushveld Minerals, through its subsidiary Bushveld Energy, is driving VRFBs, using locally-mined vanadium, for power storage to supplement renewable energy generation. Bushveld intends to install a solar-plus-mini-grid using a VRFB at one of its plants. It has also partnered with the Industrial Development Corporation to build a plant in East London to manufacture vanadium electrolyte.

Since 2015, Eskom has been testing utility-scale, commercially-available battery systems at its research facility in Rosherville. Eskom's spokesman says it has been testing a lithium-ion phosphate battery, which has performed well. It also started but discontinued testing a high-temperature sodium nickel chloride battery, and a VRFB was submitted for 18-month testing, but it is not operating. Another unit from China will be tested, but its arrival was delayed by COVID-19. ■

SALT OF THE EARTH

By DAVID MCKAY

The Colluli Potash Project in the Danakil Depression in Eritrea will begin the first major production of the potassium-rich fertiliser in 2022. With African countries' lack of food security and farmers on the continent in need of fertiliser for their crops, projects like this joint operation between Danakali Ltd and the Eritrean government are receiving investor interest.

The Danakil Depression in Eritrea is as inhospitable a location as it's possible to find. It is hot, temperatures soar to 50 degrees Celsius, unpeopled and unserved by infrastructure, and mind-bendingly dry: the region averages a mere 100 to 200 millimetres in rainfall annually.

But it is also the focus for millions of dollars in new investment. That's because the eastern section of Danakil, close to the border with Ethiopia, is home to the Colluli Potash Project – a crop fertiliser mineral that is winning the attention of investors.

Colluli is a joint venture between Sydney- and London-listed Danakali Ltd and the Eritrean government. Situated on the eastern section of the Danakil Depression, close to the Ethiopian border, Colluli contains 200 years of sulphate of potash, or SOP.

Normally, the only visitors to this region of Eritrea are the Afar, a people who mine the vast plains of sulphur and hot springs for surface salt, which they prise from the ground and cut into blocks ready for transport, normally by camel.

Somewhere in this vastness you'll also find signage, erected by Danakali. It is planning to begin first major production of potash in 2022. About $250m of some $320m in total finance required has already been tied up from the African Finance Corporation (AFC) and Afreximbank. There's also an offtake agreement for the first module of production with EuroChem Group, an established German fertiliser company.

"The beauty of our project is that we're producing from solid salts and that means you don't have to go through evaporation ponds, which will take a lot longer to get from the ore to the finished products," says Niels Wage, CEO of Danakali, in an interview.

"So we can get into a finished product relatively quickly, a couple of weeks, before you actually have to get the ore processing," he says. From ore to product is a straightforward process of crushing, mixing, drying before popping it onto a ship. Eritrea also borders the Red Sea. Anfile port, the proposed loading area for Colluli potash, is a mere 87 kilometres away.

Provided the asset is good, financing projects of this ilk ticks a lot of boxes for lenders, especially development finance institutions such as the AFC, which sees in Colluli an opportunity to accelerate Eritrea's economic recovery from a 20-year war with Ethiopia, which ended in 2018.

According to a World Bank report, an estimated 700 million people in developing economies don't have sufficient access to food to ensure healthy living. The 'why' behind this, however, is slightly more nuanced. It's

Danakil Depression, Eritrea

not a lack of food, says the bank, but a deficit in purchasing power in developing economy households. Improving the lot of local farmers is, therefore, key.

"Most African farmers don't have access to fertiliser at all," says Brad Simpson, CEO of Kore, a potash development company also listed in London and Johannesburg. Sampson thinks that, ultimately, Africa has the ability to feed other parts of the world, as well as itself.

Kore operates in the Republic of Congo, an almost complete east to west transverse across the African continent from the Danakali project. Kore recently published the results of a pre-feasibility study for its Dougou Extension (DX) project, scoped at pre-production costs of $286m. "We've been positively surprised by lenders. We are quietly confident arranging debt won't be a problem," Sampson says.

One of the consequences of the COVID-19 pandemic has been to cast a light on social injustice and, to some extent, to co-dependence of the human species, notwithstanding the polarising effect of some politics currently abroad.

Social investing, however, was already part of the zeitgeist before COVID-19. In June, Finland's Finnfund Global Impact Fund I was launched. Focusing on sustainable energy and agribusiness exclusively in Africa, the fund is one of the latest of a rising tide in so-called impact investing.

According to an annual poll of 1,700 investors conducted by Global Impact Investing Network (GIIN), assets under management in impact funds increased 50% to $715bn in the past year.

"The opportunity of looking at how you can contribute to the social, ESG (environment, sustainability, governance) aspect of investment is definitely going to be an increasing factor," says Wage. In addition, the way in which COVID-19 has affected politics seems to work against developing economies in terms of sourcing food.

The World Bank, commenting in its semi-annual commodities report in April, highlighted a short-term concern that might develop into a trend. It cited "recent announcements of trade restrictions" by exporters such as Russia as well as 'excess' buying by importers having raised concerns about food security and the possibility of hoarding.

"Low-income countries are more vulnerable to food insecurity, as food accounts for a large proportion of their consumption


Niels Wage
CEO of Danakali

than in EMDEs (emerging market and developing economies), particularly among the poorest households," it said. It identified sub-Saharan Africa, where about a fifth of the population suffers from malnutrition.

Wage says Colluli's SOP has specific environmental advantages. It allows for better conservation of water and certain crop benefits that he thinks will continue to gain currency, especially if industries are government-supported where environmentally-friendly measures will become mandatory. SOP also contains low chloride, which assists with crops that don't react well to the substance.

In the other corner of the product contest, so to speak, is muriate of potash (MOP) which is Kore's product. A function of different geological deposition, MOP yields the highest potassium, says Sampson. Both Kore and Danakali claim low cost of production, niche demand, and ample resources.

The fertiliser mineral industry is a complex one. Some crops prefer low chloride, others benefit from other chemical nuances; there's even a market for the zinc and manganese that can be retrieved from recycling alkaline batteries, according to Lithium Australia, which has also targeted the fertiliser sector as supplementary to its own lithium mining.

But with so much of the stuff apparently about – BHP's mammoth $17bn Jansen potash project in Canada's Saskatchewan contains an estimated 2.3bn dry tons of potassium oxide – it begs the question as to whether the market will be flooded relatively quickly, and for a long time.

Says Sampson: "Even a BHP scale project will fall into demand growth and, anyway, it's not in BHP's interests to kill the market". The MOP market is worth about 67m tons a year against which Jansen will produce 8m tons annually. Sampson's optimism though is linked to the fact that fertiliser mineral growth is tied to long-term

'We've been positively surprised by lenders. We are quietly confident arranging debt won't be a problem.'
– Sampson


Brad Sampson
CEO of Kore

population growth of two to three per cent a year. "Regardless of how this plays out, people need to be fed," says Sampson.

Anglo American surprised the market last year by adding its name into the mineral fertiliser industry following its £405m takeover of Sirius Minerals, a UK firm that was developing the Woodside project in northern England. Woodside is interesting because it contains up to 100 years of polyhalite, another play on the fertiliser mineral industry.

Polyhalite has no market as yet, but Anglo CEO, Mark Cutifani, says his group has taken a calculated bet on its ability to get the marketing from mine to customer spot on. The key, he thinks, is that polyhalite has a diversity of mineral properties that allow for it to be blended with SOP and MOP. As such, Woodside is a play on the growing sophistication of end-user consumption. The resource is also amenable to the bulk mining Anglo knows well.

Says Cutifani: "We actually need to reduce the amount of land dedicated to agriculture by 20% to 30%. This is the long view, and we need to improve the productivity of land that we have under agriculture by 30% to 50%. We think these types of products actually play into that imperative". ■

EVER CONT

Neal Froneman
CEO of Sibanye-Stillwater

THE ENDER

Sibanye-Stillwater's CEO, Neal Froneman, turned 60 this year – an anniversary that's hard to ignore. Seasoned though he may be, Froneman still gets cast in the role of contender. Why, despite a spectacular seven years at Sibanye-Stillwater, is one of Johannesburg's most reputed deal-doers, so renowned? **DAVID MCKAY** reports.

"I believe I still have another three, four, or maybe five years, but I will keep an open mind," says Neal Froneman, CEO of Sibanye-Stillwater of a report earlier this year in which his name and 'retirement' were mentioned in the same headline.

Ironically, Froneman is speaking via video link from Florida where a quarter of the US state's population are retirees. Lately, the Sunshine State has a less welcome reputation: 'God's waiting room' – a sobriquet related to its high incidence of COVID-19 fatalities.

Nonetheless, Froneman decided to sit out the lockdown there rather than risking the long-haul flight back to Johannesburg. "We came across for the re-listing of Sibanye on the New York Stock Exchange; then we had a bit of marketing to do and they very quickly closed down all the international flights and, fortunately, I have a residence here."

Sibanye-Stillwater relisted in New York in order to accommodate the platinum assets it had been accumulating over the last three

Enoch Godongwana is head of the committee for economic transformation

Joseph Mathunjwa is President of the Association of Mineworkers and Construction Union

‘I remain concerned that there could be some tough times ahead in the next six months as the global economy sort of rights itself.’

years: the R30bn Stillwater Mining deal, as well as the Rustenburg assets of Anglo American Platinum and Lonmin.

As for retirement, it *really isn’t* on the cards, and even if it were, what would it portend for Sibanye-Stillwater? He could leave tomorrow and the company would be fine, he says. “There are a number of internal successors waiting in the wings.” (One wonders if Justin Froneman, his eldest son, and integral to the Stillwater deal, is one of them?)

Even after Sibanye-Stillwater, Froneman isn’t anticipating anything else but work. “I don’t think it will be the ending of my career to be honest; it probably might be an appropriate time to hand over the baton, but I’m still a very young 60.”

Froneman splits opinion. Could it be he frequently courts failure with his bold expansionary talk, or just irks the hell out of people with his outspokenness? Or perhaps, he’s the classic outsider: no fancy private-schooling, unpolished perhaps, the accent deeply rooted in Johannesburg.

Whatever the answer is, he also has the knack of proving his doubters wrong – Sibanye-Stillwater’s seven-year rise to prominence a case in point. Now on the cusp of resuming dividend payments, which his critics said would be impossible following the takeover of Stillwater Mining in 2017, Froneman claims to be unconcerned with detractors.

“I don’t specifically aim to prove people wrong, I just do what I think is my job. It’s not about being different, it’s actually about not getting sucked into the same groove where everybody is comfortable and nobody takes risks.

“If you don’t take risks, there are no real returns, or let’s call it exceptional returns, just average returns.” He claims to have largely positive feedback from past shareholders; they’ve made money. “I suppose you don’t often meet critics because they don’t want to meet you.”

A dividend declaration might not be at the half-year point, however, as previously ‘hinted’ in February (actually, Froneman pretty much proclaimed it). That’s because COVID-19 has changed the game so much that’s it’s impossible to say today, in late June, what the economics might dictate in August when Sibanye-Stillwater’s board is to meet.

“I remain concerned that there could be some tough times ahead in the next six months as the global economy sort of rights itself. I think the worst of COVID-19 is coming.”

Economists are fond of speaking in terms of shapes when they discuss future recovery; which is to say, China is experiencing a V-shaped fall and rise. But Froneman thinks the scenario for Europe and the US is a different thing entirely to China.

“I sense there’s lots of pain coming with the dollar, which means that the rand could well strengthen to significant levels, which is surprising considering the mess our economy is in,” he says of South Africa, where the majority of the firm’s gold and platinum revenue is generated. “Some commodity price benefits could well be evaporated by a dollar that collapses.”

For all his rough edges, Froneman generally offers a genial public face. In two decades of writing on his career, I struggle to remember him losing his temper. Two interlinked subjects raise his ire, however: union tactics and government policy.

Froneman has good words for mineral resources and energy minister Gwede Mantashe, whom he describes as supportive. It’s a view that’s been particularly enhanced by the COVID-19 crisis, during which Mantashe has tended to let mines manage themselves in a way that would be welcomed were it extended to other areas of industry activity.

Unions, though, have Froneman in a froth. “That sounds harsh,” I tell him, almost certain he’ll want to retract his comments about union relations. “No, those comments can stay,” he says.

“The unions have no sense of reality,” he says – a reference to national leadership as grassroots relationships tend to be quite different. “There is completely no sense of the business imperative; the lack of understanding of the commercial realities and what is in the national interests.

“They are completely focused in a way, very selfishly, only on the well-being of their members and not on the national interests of the country. That is unsustainable. Their focus is unsustainable.”

It’s quite likely he’s referring to Association of Mineworkers and Construction Union (AMCU) president, Joseph Mathunjwa. Froneman and him, they don’t get on. AMCU’s six-month strike, which started in November 2018 heavily disrupted Sibanye-Stillwater’s gold production for the 2019 financial year and ended in the self-same settlement AMCU previously rejected. Then came the court obstructions laid by AMCU that delayed the firm’s takeover of Lonmin.

As for Froneman’s view on government, that was articulated quite widely in national media in May. An ANC economic transformation committee paper constructed by its committee head, Enoch Godongwana, raised again the prospect of ‘prescribed assets’ – the forced investment of private pension funds into designated government projects – albeit in different terms, called ‘guidance’. It’s a matter the investment sector thought had been discussed and buried two years ago.

“Economically, I’m not optimistic,” says Froneman. “I’m yet to see constructive and investor-friendly plans.”

At the time of writing, finance minister Tito Mboweni's supplementary budget had etched out an economic scenario that sees an expanding account deficit for at least the next three years. Public debt as a percentage of GDP will only stabilise in 2023/24 at the high 80% level. It's sobering information that profoundly influences all areas of investment sentiment: the so-called South African discount.

At the moment, emerging market investment is rising but that's not to confuse it with foreign fixed investment, of which there has been a tragic shortage in South Africa. Froneman thinks the discount is real and sits squarely on the Sibanye-Stillwater share.

"Yes, absolutely there is a real South African discount and when you try and engage with international companies in terms of relationships, they are not interested because it's not difficult to see why it's (South Africa's) not investor friendly," he says.

While sovereign-related discounts clearly exist, the discount Sibanye-Stillwater labours under relative to its platinum group metal (PGM) peer group is entirely within the firm's own orbit. That's its high level of debt, incurred following the PGM acquisitions of the past few years, and which also included an all-share bid for control of DRDGOLD, the gold re-treatment company.

Said Arnold van Graan, an analyst for Nedbank Securities in a report earlier this year: "... the company's net debt-to-EBITDA (earnings before interest, tax, depreciation and amortisation) gearing remains sensitive to metal prices.

"We believe there is a risk that the COVID-19 related headwinds could somewhat undo what has been a very good turnaround and delivery story over the past year," he said. "This could also raise concern about the balance sheet again, despite improvements over the past six months."

Froneman's view of the risk is mirrored in the timing of the dividend resumption. Operationally, however, the company "isn't stressed". The focus is falling on the well-being of employees and the outcome has a certain serendipity to it: "We are finding that with 50% of our workforce we are achieving well in excess of 50% of production. So there's a new normal developing."

Froneman wouldn't be Froneman without the conversation turning to possible merger and acquisition activity. This time there are no immediate plans. We've heard that before, but Froneman says there's an existential undertaking not to do anything now, notwithstanding previous comments he has made that the firm is in the market for silver or battery metal production. And anyway, getting a due diligence study away under current border and travel regime is hard to do. "It's not our priority to do M&A," he says.

But there's a time when it will be. That's why Sibanye-Stillwater bought research house SFA Oxford, the UK business that is primarily pointed at PGM market research. It has been studying the possibility of buying up battery metals to complement PGM production in the automotive drive-train.

"I do think that next year we will be in a position to have reinstated our dividend, pay down our debt and we could then start actually looking at doing due diligence and, by then, international travel will have opened up," he says. ■

HOME COMFORTS

By DAVID MCKAY

South Africa once produced 78% of the free world's gold. It's share of global output is now a fraction of that, but Harmony Gold is getting stronger because of it.

Peter Steenkamp
CEO of Harmony Gold

You've got to hand it to Harmony's boss of five years, Peter Steenkamp: he's made the best of a helpful gold price. In the second half of this year, the company will have a run-rate of 1.8 million ounces, nearly double its annual production in 2016.

To put that in perspective, that's roughly 55% of total national gold production, assuming it's at the 101 tons of 2019. While capital has largely fled South African gold, Harmony has carved out a niche in a sector that 40 years ago produced 10 times as much.

"It was quite a tough decision to join Harmony at the time," says Steenkamp of his decision to leave Sasol. "But it worked out quite well."

He was lucky and smart; smart because Steenkamp – who was earlier in his career COO of Harmony – brought an end to the unplanned mining stoppages that had made its performance difficult to predict. And then there was the gold price.

Between 2016 and now, the dollar gold price has increased $700/oz – about 65%; in rand terms it's more than 100% higher. It gave the firm's older mines much-needed margin and Steenkamp some valuable breathing space to set about finding new sources of production.

He first thought to buy mines opportunistically in Africa; as it turned out, however, Harmony's most impactful deal-making was done much closer to home.

End-June represents the pencilled-in date when Harmony buys Mponeng and Mine Waste Solutions from AngloGold, a $300m transaction that adds about 250,000 oz/year in annual output. It mirrors the 2018 deal in which Harmony bought Moab Khotsong, also from AngloGold for $300m.

In that respect, Harmony has the large, high-quality orebodies that a former CEO of the firm, Bernard Swanepoel, sought in the failed merger with Gold Fields in 2002. A bigger test awaits, however.

Wafi-Golpu in Papua New Guinea (PNG) is an enormous greenfields gold/copper project Harmony shares with Newcrest Mining, an Australian firm. The two have been trying to get the project on the road for years, but have been frustrated by a combination of market forces and, more lately, PNG's volatile political life. A decisive moment in the project's development will be the grant of a special mining lease (SML) from the PNG government.

"There is disappointment that we took so long to get where we are," says Steenkamp. "We started with the application in 2016 and we're in 2020 and we still don't have an SML ... At the moment we are not able to travel to PNG, so we can't have face-to-face meetings. But I must say, we are very encouraged with the public statements from the prime minister about the project so, hopefully, we should see some good traction."

Those meetings may have to wait until countries are able to navigate the COVID-19 pandemic when international travel returns. In the meantime, COVID-19 is presenting challenges closer to home.

At the time of writing, Harmony had spent R70m on kitting out employees with personal protective equipment and putting in place quarantine facilities. Steenkamp acknowledges he suffered trepidation, like the rest of the industry, when the scale of the virus hit home. "My first reaction was: 'I've just turned 60 ... how do I go through this?'

"But what was so wonderful about this is the reaction of the team. It's really strengthened my belief in mining and how we actually deal with things over time."

Steenkamp estimates Harmony will only get back into its operational groove in August, given the current clip of recovery. It's taking longer than anticipated to get the firm's 7,000 migrant employees back into the country. So there will be financial

GOLDEN DAYS

The gold price has been the big winner in a universe of reverses this year, owing to COVID-19. And with interest rates down, and central banks pumping money into the global economy, that dense, yellow slab of metal has found fresh life afters years in the shadows.

Graham Birch, a livestock farmer for the past decade, but previously MD of UK investment firm Blackrock's natural resources fund, once brought a minted bar of gold into a conference presentation he was giving.

He placed it carefully on a table and said: "The whole time I give this presentation that metal will do absolutely nothing; it will remain completely unchanged."

That, in a nutshell, is what gold does. It hangs around; the Bank of England alone has an estimated $100bn of it sitting in its vault. The aim of its preservation is preservation itself; to one day – usually a rainy one, economically speaking – provide monetary succour. This is what it's doing now.

Analysts are trying to get their heads around just how far gold can go amid the current economic fallout brought on by the COVID-19 pandemic. "Gold prices could very reasonably be expected to rise to $1,892/oz and potentially as high as $3,000/oz," said Charles Gibson, an analyst for Edison Research in a note during June.

The view is fuelled by the activities of the US Federal Reserve, which, in an effort to keep confidence flowing, has injected 58% of its monetary base in stimulus efforts, taking total monetary distribution to about $5.1tr since April.

According to Peter Mallin Jones and Tim Huff, analysts at Peel Hunt, a UK stockbroker, the gold price run has massively lifted cash flow for mining firms. Of the six companies in its coverage, they will generate 60% of their current market capitalisations through cash flows after capital expenditure.

Obviously, investors have long cottoned-on to this potential, but perhaps valuations of smaller companies – the exploration and small-cap firms – have yet to catch up. That's the view of Michael Siperco, an analyst for Velocity Trade Capital in Toronto. He sees no immediate end to gold's run.

"Volatility could continue in the near term, given the still unknown course of the pandemic, the impact of mining operations and, more importantly, the global economy," he said in a note in May.

"Nonetheless, we largely look past the potential for near-term disruption with strong conviction in long-term rising gold prices, and the renewed ability for producers to benefit and sustainably grow production and capital returns."

‘It was quite a tough decision to join Harmony at the time, but it worked out quite well.’
– Steenkamp

consequences, the strength of the rand gold price notwithstanding.

One is the impact of the firm’s hedging strategy, which is underwater at the moment. Having to deliver into the contract equal to a fifth of total gold production, at a time when gold production is below capacity, exposes the firm’s revenue.

Its debt reduction drive will also be interrupted. Handily, the Mponeng purchase was done in shares when the firm’s valuation was near record levels. That’s taken unnecessary stress off the balance sheet at a time when funding power is a burning, long-term question.

While Wafi-Golpu hangs in the balance, Harmony’s production replacement will have to come from organic expansion, especially at Moab Khotsong and Mponeng. How is the firm going to balance funding those projects, and still keep its powder dry for Wafi-Golpu?

“We think we can do it at a bit of a lower cost than was in the original feasibility,” he says of a shaft deepening project at Mponeng that AngloGold priced at $252m. “We haven’t made that decision. We have a nine-year life of mine there and probably need to make that decision in about three years from now,” he says.

He’s got a similar approach to Zaaiplaats, which is Moab’s extension project. What will give Steenkamp comfort is that Harmony has the canny skill of squirreling out new mining areas that went unnoticed by previous owners, or which hove into view at a higher price.

The extension of Kusasalethu, west of Johannesburg is a case in point. Shortly after joining Harmony, Steenkamp shortened its life to five years from 25. But it’s now got another four years longer than planned, helped by the gold price of course.

“We’ve always been able to find mining certain areas above infrastructure that can extend the life of mine.” That’s why the company keeps on surviving even as others pack up for greener shores.

John Welborn
CEO of Resolute Mining

CATCH AND PASS

The gold price hasn’t caught in the sails yet of Resolute Mining. John Welborn, the Australian firm’s CEO, thinks he knows why.

The burly Australian is a former Wallaby rugby player and played for the Sharks in South Africa, so sporting allusions tend to run deep. For him, the company has to stick to basics in order to convince investors to pick the firm’s share with the kind of enthusiasm that has seen compatriot company, Perseus Mining, double in a year. By comparison, shares in Resolute have been flat for 12 months.

“As you know, I have the history of rugby. Often, when I go to help at school rugby it tends to be that they’re doing all these incredibly complicated training moves, or their game plans are incredibly structural. In fact, the biggest thing you can do is focus on the catching and passing. If they do that, they start winning.”

In the life of Resolute, this translates into producing a few solid quarters of uninterrupted production. That’s not what the company got in September last year when processing equipment at its Syama mine in Mali suffered a technical failure.

Welborn thinks Resolute is recovering from that. “We haven’t yet demonstrated that consistency that some of our peers have. I’m very confident that we’re going to do that this year,” he says.

The other factor is that Welborn and Co. may have misread the gold market. For reasons to do with protecting the balance sheet (since much improved), Resolute took out gold hedges equal to about half of its 400,000 ounces in gold production planned for this year. The hedge will be closed in 2021, which might bring about the valuation lift.

Welborn has grown the firm aggressively – the banner deal was the $274m takeover of Toro Gold and its Mako gold mine in Senegal just under a year ago – while hiving off its Ravenswood mine in Australia. It also plans to sell Bibiani, a Ghana mine Welborn rates, but which doesn’t have the scale.

The question though is that with all this good work under his belt, the reticent share price might mean the company is vulnerable to the kind of consolidation Welborn has been espousing for Resolute? “We would probably be on the radar of people who matter,” he says. The hope though is that it’s Welborn who gets to demonstrate the value of Syama (and Mako) before anyone else sees the opportunity. ■

WE ARE WISER AFTER MARIKANA

By DAVID MCKAY

But, says Amplats CEO Natascha Viljoen, mining companies should prepare for post-COVID discontent.

Natascha Viljoen
CEO of Amplats

Before her appointment as Anglo American Platinum's (Amplats') new CEO in April, Natascha Viljoen (49) was head of processing at Anglo American. Prior to that, she was at Lonmin where her management of the firm's processing for a six-year period from 2008 was paired with several other executive responsibilities – including sustainability and stakeholder relations.

That places her, therefore, at Lonmin during August 2012 when security services shot dead 34 protesting mine workers and injured 78 others at the Marikana mine near Rustenburg. It was a period of considerable foment: mine violence, largely a function of union rivalry, had already unsettled Lonmin, as well as the rest of the platinum industry. People tend to forget there was violence at Impala Platinum and elsewhere at the same time as the newly emergent Association of Mineworkers and Construction Union vied with the National Union of Mineworkers for members. Nationally, South Africans had taken to the streets; tyres were aflame, rocks and other debris blocked main roads as people railed against the government's lack of service delivery.

"Marikana could probably have happened in many places in the mining industry," says Viljoen in an interview in late June. "It did happen at Lonmin for various reasons; it's a boiling over of a society that's frustrated with their current circumstances." The obvious question is whether with the economic pressures posed by COVID-19, a similar circumstance could arise again.

Mark Cutifani, CEO of Anglo American, acknowledges the risk. Marikana was a moment in time, but he also warns: " ... we haven't removed the issue that created Marikana and I'm talking about poverty and inequality (in South Africa). So I'm still worried, but I also hope we're all a lot wiser: government, unions and businesses, and we'll talk and we'll all try to make sure we don't have that again."

Says Viljoen: "Are we going to see something like Marikana? I honestly hope we don't go there again. I trust that we've learnt out of those processes and that we'll keep that top of mind if we experience any kinds of similar upset conditions again."

It seems no accident, therefore, that Amplats' response to the economic hardships of COVID-19 – as with the majority of the mining sector – has been resoundingly proactive. Amplats paid R1bn in salaries to employees who couldn't attend work, owing to the South African government's lockdown regime.

Speaking at a roundtable with journalists, Viljoen said that money wouldn't be recovered, but then it wasn't in any way a typical capital allocation against which tangible return was set. It's more duty: "We need to acknowledge we're paying that in support of our employees," said Viljoen.

"There's a number of things that we can learn from Marikana. The one thing is how do we truly engage with our employees and our community members? Because I think there was a total breakdown in communication, and I'm not going to talk about Lonmin because it was broader than just Lonmin," she says.

Coupled with future risk is the present danger of COVID-19 infections. Amplats employs about 24,500 people. It's expecting a 7% to 10% infection rate, somewhat in line with national averages, but it also acknowledges it may have to shut mining sections or an entire mine if infections get to 20% of total. It has 1,000 beds and quarantine facilities on-mine, especially for employees who can't quarantine at home, and what happens at home is very much a mining question. But as part of its measures, Amplats is finding, as with others in the sector, that more than ever it has to reach into the community in a collaborative way, not as "this big Father Christmas," as Cutifani described it, paternally dispensing favours. "Those days are over," he says.

"We're part of an ecosystem," says Yvonne Mfolo, head of Amplats' corporate affairs. "I recall someone saying your communities will remember you for how you supported them through a crisis, and this is another way of us buying goodwill, both from government and from the communities where we operate as well".

Says Viljoen: "I think the economic recovery in our communities is going to be tough, and we are certainly preparing ourselves for a high level of unhappiness in our communities that could show itself in many ways.

"It could show itself in protests that we are in any case seeing all the time; we could see that in increasing violence – we are already seeing to a large extent the increase in gender-based violence. There's an underlying frustration with many of our community members."

Working life as Amplats CEO hasn't started off easily for Viljoen. First off, major failures at the firm's processing facilities – the Anglo Converter Plant (ACP) – in February under the watch of her predecessor, Chris Griffith, set the ground for a difficult first half to the financial year. Then came COVID-19 in March. Throughout this, Viljoen was in the process of relocating part of her family from Brisbane.

Ironically, the ACP in Rustenburg, where the failures occurred, is her professional forte. According to an article by Business Insider, Viljoen has developed award-winning recovery technology that's energy and resource efficient: "She's a brilliant metallurgist," an acquaintance is quoted as saying.


Mining community protests over lack of food and jobs in Rustenburg in South Africa

Unfortunately, by the time Viljoen had clocked in at Amplats, the damage had been done. Repairs are underway: one of the reprocessing units has been fixed; another will come back in the fourth quarter, three months earlier than expected. The hit is substantial, however: Amplats reckons 2020 refined production will come in between 3.1 to 3.6 million ounces – the gap in guidance a sure sign of the uncertainty.

Set against this, production will only reach 90% in the second half of Amplats' financial year as the firm recovers from lockdown. The processing blowout alone was expected to result in an R18bn hit to earnings before interest, tax, depreciation and amortisation (EBITDA), although that's a moving estimate as prices and the rand have been volatile.

Speaking to journalists, Viljoen said breakdown and lockdown had fast-tracked introductions through the business: more than 200 senior managers had been met and sounded out in less than 12 weeks. Musing on the crisis, she referred passingly to Chaos Theory and its benefits. And as the old saying goes: there's no point in wasting a crisis.

For instance, the glimpse afforded by COVID-19 of an environmentally cleaner world could result in greater political will for the decarbonisation of the global economy. This would be supportive of certain technologies such as platinum group metals (PGMs) in electric battery vehicles (EBVs), or in the so-called hydrogen economy insofar as platinum is the catalyst in fuel cell electric vehicles (FCEVs).

The jury is still out on the final landing place of the two technologies in terms of industrial application (see box), but Viljoen thinks it's important to be positioned for PGMs in traditional drive-train technologies (gasoline and diesel combustion engines) as well as the greener route of EVBs and FCEVs.

"COVID-19 has probably opened people's minds to a very different potential future," she says. "There is an argument to be made to ask: can we fast track that green economy; can we break through on how we develop alternative sources of energy and in that way create new economic sectors?"

"We'll have to wait and see. Where I am positioning as a business is we need to be ready to play in either. We are certainly going

‘If we can make healthy margins, it opens up a significant opportunity for us to increase production.’
– Viljoen

to push our role in a green economy.”

Chris Griffith controversially raised the issue at an investment conference last year that PGM producers should spend more time and money marketing their metal, rather than trying to think of new ways of increasing production. It was a view informed by history: a chronic over-production of PGMs around the time of the world financial crisis presaged a painful time of restructuring led by Griffith himself at Amplats.

Viljoen is cautious on the marketing versus production debate. As a listed business, with shareholders, the firm’s focus on margin is paramount. “If we can make healthy margins, it opens up a significant opportunity for us to increase production,” she says. However, there’s also need to develop the market, for margin. “It’s how we do that balance.

“So the short answer is yes, and yes. I don’t think you can do only one. But we first need to make sure that we’ve got a business that’s really stable and really secure before we think we can just drive further throughput, or supply.”

That brings us to the question of platinum in the jewellery market. Even before COVID-19, platinum as a jewellery item was losing ground, especially in China. Viljoen says the industry has lost millions of ounces in the jewellery market.

It’s also an area of the business that responds directly to the amount of effort put into marketing. As mirrored by comments in the diamond jewellery sector, consumers may not be able to travel, so they may divert disposable income to establishing relationships, hence the token that is jewellery, for some.

“It’s a good opportunity for us to step into that market in very similar ways that the Platinum Guild International has developed its Indian market. It’s going to be interesting to see how it recovers. We’re probably going to be surprised on the upside.” ■

COOL CHEMISTRY

Platinum is the secret ingredient that cools engines powered by fuel cells that mix oxygen from the atmosphere with hydrogen in a tank producing electricity and water … Simple, right? You probably weren’t listening in chemistry lessons, but it’s the future of the heavy automotive industry, some say.

According to a report by Morgan Stanley analysts, German carmaker Volkswagen sees less potential in hydrogen-powered fuel cells in its passenger cars compared with electric battery technology. There’s a lack of source-to-wheel energy efficiency, its engineers have found.

That sounds like a setback for the hydrogen fuel cell and for the green economy; after all, fuel cell electric vehicles (FCEVs) have zero tailpipe emissions. Even including FCEVs in commercial heavy-duty vehicles – Daimler is in joint venture with Volvo Trucks to develop a commercial FCEV – it is still only absorption of the technology into 27% of annual vehicle production.

However, in the utilities sector, hydrogen can be used as a means of transporting and storing energy through the conversion of electricity and water to gas and vice-versa, all done using fuel cells, says Morgan Stanley. Given the variability in renewable power, and the risk of curtailment, this sounds like a viable power alternative.

According to Bloomberg News, Chinese companies had invested $1bn in the fuel cell industry by mid-2019 and more than $17bn more is to come. Momentum for hydrogen technology is there, but what, ultimately, does it mean for platinum demand?

Says Morgan Stanley: “The platinum market currently sits in a large surplus, and over the near to medium term palladium for platinum substitution in conventional internal combustion engine autocatalysis applications likely holds the key to a market rebalancing.

“However, over the longer term, the establishment of base demand from the hydrogen economy, coupled with a resurgence in jewellery demand, could hold the key for sector sustainability.” ■

I REJECT ANY RESPONSE THAT STARTS WITH: 'IT'S NOT POSSIBLE'

By DAVID MCKAY

Nico Muller
CEO of Impala Platinum

Impala Platinum has come out of the initial stages of the COVID-19 pandemic in relatively good shape, helped by a supportive price environment for its metals. Analysts warn, however, further shocks to mining firms may lie in wait. Nico Muller, CEO of the platinum firm, takes time to dwell on his experience of life so far amid COVID-19.

What positives do you draw from COVID-19 to the way you, as a CEO, work?

There have been several important lessons and growth points from COVID-19. These include the critical value of teamwork, which saw us successfully and safely migrate all our South African operations to care and maintenance, at short notice, and in several days to comply with South Africa's hard lockdown in March. This was a massive feat, which would not have been possible without well-run, dedicated teams.

In addition, it is evident that empowered employees are more likely to produce the innovative thinking that differentiates great companies from merely good companies. I can honestly say that I have experienced exceptional leadership and direction in the way our executives have navigated the effects of COVID-19 at their operations. I observed early and decisive decision-making, extensive engagement and, most importantly, creative approaches that placed that health and safety of our employees first.

On a more personal note, I have come to reject any response which starts with “it’s not possible”. Our team is demonstrating the art of the possible every single day. Not least of which is the rapid migration of a workforce of 50 000+ “online” via our mobile-based employee app, through which we will be able to conduct daily COVID-19 screening questionnaires to streamline our processes.

One of the problems cited by current COVID-19 restrictions is getting back to 100% production. Do you think this is possible, given the social distancing and other restrictions?

Consistent, 100% production will not be possible in the short term while the countries in which we operate are still in the tight grip of the COVID-19 pandemic, for several reasons.

While 100% production is allowed at all our operations at present, this may change as infection rates in the areas in which we operate spike. It is possible certain areas that become hotspots could be obliged to move to lower production levels, or care and maintenance. The South African government, for example, has clearly communicated that it will follow a risk-based approach in response to the coronavirus pandemic. This implies that restrictions imposed by government across the country (Level 0-5), will change over time based on the intensity and spread of the virus in these areas. We know that we are only at the start of the pandemic in South Africa and must accordingly prepare for a significant escalation in reported infections over time. While we have no knowledge of any impending, planned change by government, we should definitely expect potential moves down and up in restriction levels over time based on our collective efforts to moderate the spread of the pandemic.

At all stages of the pandemic’s curve, we will have employees in quarantine after being exposed to a COVID-infected individual, and employees in isolation recovering from a COVID infection. This reality makes the job of team planning more difficult, and all teams may not have full complements of the required job function, which affects production.

In the event of a cluster of infections, such as the 25 infections we saw at our Lac des Iles mine in Canada in April, an operation, or a portion of an operation, may need to be placed on care and maintenance for a period to control a cluster of infections.

Social distancing measures implemented at operations also means that not all teams are at full complement, and thus not at 100% production.

Universal testing looks difficult to implement and probably ineffective considering the efficacy of tests and the backlog. So a lot is down to employee behaviour, which will surely test the strength of company-to-labour and union relations. Your thoughts?

Test efficacy and the laboratory backlogs have proved challenging in our experience thus far. In addition, test availability is increasingly becoming an issue. Employee (and community) behaviour is key to mitigating the spread. We have worked very closely with our social partners and other key stakeholders in creating awareness, and launched employee- and community-focused education campaigns in all the areas in which we operate, in addition to other initiatives to deep-clean and equip schools and provide sanitising and disinfectant resources to local taxi operations, among others. Education and awareness, together with support for employee well-being (health, mental wellness, and financial/debt counselling) are ongoing. Our relationship with our dominant unions has been a constructive one, and the collaboration on employee and community awareness and education has been welcome.

Coronavirus notices hang at the entrance gates of the Impala Platinum Holdings shaft 2 mine in Rustenburg, South Africa.

We've seen divergence among the market watchers – WPIC, CFA Oxford and JM on the extent of the platinum deficit in 2020. What's your reading of the platinum market for this year specifically?

As yet, the group has not seen a meaningful change in requirements for our metals. While it will take some months (if not years) for the full economic impact of the pandemic to be revealed, market deficits for both palladium and rhodium are likely to persist in our view, given the material impact of supply interruptions that have countered demand destruction, with the unusual but fortuitous confluence of the timing of these interruptions. We see platinum in a narrower than previously expected surplus – the impact of supply shocks and strong investment demand have more than offset the impact we expect on auto, jewellery and industrial demand.

While our understanding of the demand impact of the pandemic will evolve in the coming months, our initial view is that changes in previously forecast demand are likely to be cyclical rather than structural, and hence do not require meaningful adjustments to production strategies or commodity exposure.

If ever the hydrogen economy received a shot in the arm, this is it, right? COVID-19 has focused civil and public sector attention on environment. How will that benefit your company in a rand and cents kind of way?

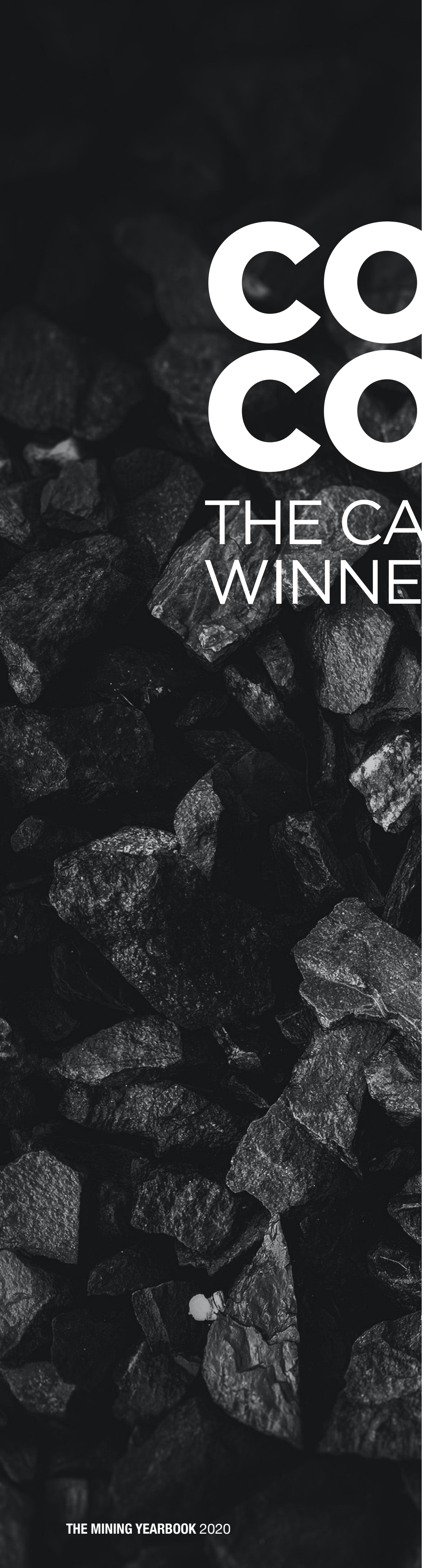
Several 'mega-trends' are likely to be expedited by the COVID-related crisis – with many commentators calling for government stimulus to be directed in a way that supports and accelerates decarbonisation and environmental stewardship. A push for green stimulus has provided further evidence of the extent to which hydrogen has become 'mainstream' and bodes well for the structural demand for platinum provided by this nascent segment. We think the timeframe over which the hydrogen economy becomes mainstream has been accelerated by two to three years in particular. From a rand and cents perspective, it helps reduce the risk to the evolution of demand support for platinum towards the end of the decade – it gives us greater confidence on our pricing assumptions in the medium and longer term and helps us plan our business better.

That palladium project you're looking at: Has COVID-19 made it look riskier or easier to call, and am I right to assume deliberations about whether to invest are mostly market-related, not technical?

The primary considerations relate to strategy. The project's technical aspects are sound and promising and fit with our strategy to rebalance the Implats portfolio of mining assets towards lower risk, shallow and mechanisable orebodies. However, our decision not to increase participation in the project considered the duration of the ramp-up profile of the project in terms of the our longer-term PGM demand outlook, as well as our funding and return requirements at 50.01% shareholding in the context of our capital allocation framework. In the end Implats prioritised balance sheet strength and shareholder returns, given the uncertainties introduced by the COVID-19 pandemic and the now skittish investor financing appetite for large greenfield projects in general.

There are concerns among business about government's plan to reset the economy. What do you make of its comments: opportunistic politics from within the ANC, or an opportunity to re-open the debate on positive reform?

We have every sympathy for the unenviable challenges the government is facing on multiple fronts in dealing with COVID-19, the associated economic fallout and the frustration across the country. Suffice to say, left unaddressed, we are facing a less sustainable, less equal, and more fragile future – and entirely new foundations for our economic and social systems need to be built. This is definitely an opportunity to re-open the debate on positive reform. We are encouraged that the president has very clearly opened the way for greater collaboration with business and other social partners, which will help make the breakthroughs necessary to work towards economic recovery and the restoration of jobs. It is vital government improves coordination (tax, regulation, fiscal policy), creates the conditions for a stakeholder economy, and invests in shared goals, such as equality and sustainability. ■



COAL COMFORT:

THE CASE FOR **POST-COVID** WINNERS & LOSERS

In a post-COVID-19 world that may be sharply divided between winners and losers, coal is likely to get a reprieve while gold may come back to earth, writes **ED STODDARD.**

When the COVID-19 pandemic finally passes, the new economy that emerges will have commodity winners and losers.

Coal, for one, may prove to be a short-term 'comeback kid', though its long-term decline is set in stone. But, in a global economy where inflation remains subdued and the biggest uncertainties around the pandemic have eased, gold may come back to earth. Meanwhile, growing concerns about environmental, social and governance (ESG) issues should support demand for battery metals and palladium. And demand for iron ore is seen rising again in the key Asian markets of China and India.

Let's start with coal. Obituaries for the fossil fuel are looking premature. This is despite the hype of how lockdown has re-greened the world economy – a function of less industrial activity and lower CO_2 emissions.

In fact, the economic meltdown triggered by the pandemic appears to be giving coal a new lease based on an old argument: namely, that developing economies cannot afford to do without a relatively abundant and cheap source of energy that powered the Industrial Revolution.

‘It is important to observe whether China reintroduces stimulus measures to promote particularly EVs, as that will give an idea as to how quickly demand will recover.’ – Smith

Indian Prime Minister Narendra Modi made this point in June when he launched an auction for 41 coal mining blocks for the private sector in June.

“People of these districts are aspiring for development but have lagged behind,” he said. And China has signalled it will allow more provinces to start building new coal plants in 2023 while speeding the pace of construction of coal-fired power stations currently being built.

Still, in the post-COVID economy, ESG concerns will continue to hamper coal, as more banks bow to shareholder and other pressures to cut financing to the sector. In April, two major Japanese banks, Mizuho Financial Group and Sumitomo Mitsui Financial Group Inc, announced plans to pull the plug on new coal projects while remaining committed to those in the pipeline, including a major one in Vietnam. And Anglo American plans to sell its South African coal assets as it seeks to boost its ESG record. Such sales will be under intense scrutiny in South Africa, with its vibrant and vocal conservation movement.

Iron ore is also closely linked to industrialisation. Historian Toby Green, in his recent sweeping history of West Africa, *A Fistful of Shells*, has uncovered the arresting fact that demand for iron ore bars in 17th century West Africa, used as a currency, enabled early industrialisation in Europe. In the 21st century, China is still industrialising along with other Asian economies.

“Iron ore has been holding above $80 a ton throughout the outbreak. Some of the major iron ore miners achieved record production levels in Q1 2020 as China began emerging from the crisis. Also, China is expected to increase public spending on infrastructure projects to boost its weakening economy,” PwC recently noted in a report on the global mining sector.

“The economic outlook for India, the other major consumer of iron ore, will be similar to that of China. While short-term demand has been affected by the slowdown, there is a general expectation that consumption will recover as India lifts its lockdown.” And in the longer run, African industrialisation will depend on iron ore centuries after its historical demand for the commodity helped lay the foundation for Europe’s modern economy.

Gold, on the other hand, may lose some of its newfound lustre in the post-COVID world.

In late June, at the time of writing, the precious metal’s price was close to eight-year highs around $1,780 an ounce.

But it has had absolutely everything going for it. The pandemic has greatly increased economic and market uncertainties, hugely boosting gold’s appeal as a “safe haven”. Global stimulus packages, including cutting interest rates to the bone, have further lifted it. Yet, while investors are pouring in, jewellery, industrial and central bank demand has cratered. Consultancy Metals Focus in late June forecast that gold will average $1,700 an ounce this year.

“Jewellery demand has collapsed as a result of shutdowns, higher prices and poor consumer sentiment. The harm to industrial demand has been less dramatic, but this was mainly thanks to defensive inventory build by users. Physical investment has been mixed; western markets have enjoyed a recovery whereas, in much of Asia, financial distress and higher prices have put pressure on demand,” it said in a report.

The post-COVID economy could further cap gains if relative levels of certainty return to global markets and stimulus initiatives tail off. Of course, geopolitical tensions may remain on the boil. Meanwhile, jewellery demand could remain restrained if consumers are still reeling from lost income. A relatively fast end to the global recession or depression will be required to reignite demand on this front.

The performance of PGMs will also depend on the pace of the recovery.

“Palladium will likely be at $2,200 to $2,500 by June 2021, rhodium will be above $10,000/oz and platinum, despite being in a surplus, may be pulled up by gold to around $1,000/oz. This all assumes the world returns to some form of normality and that the lockdown doesn’t cause a prolonged global recession,” said Cor Booysen, equity portfolio manager at Fairtree Asset Management.

ESG concerns have been among the factors driving palladium’s pre-COVID-19 rally to historic highs late last year of over $2,700/oz as it is the metal of choice for petrol as opposed to diesel engines, which are falling out of favour in key markets such as Europe in response to tighter emissions regulations. That trend should give it legs, and platinum should get a lift by a new tri-metal catalyst launched by BASF – work sponsored by Sibanye-Stillwater and Impala Platinum – that enables partial substitution of platinum in light-duty gasoline vehicles.

And what of the battery metals seen driving the electrical vehicle revolution?

“There’s a lot of research being bandied about for demand by 2050,” Lara Smith, director of Core Consultants, a mining consultancy, said. “Capital is impatient and fund managers aren’t seeking to give up their liquidity for returns in 2050.”

Smith noted that lithium, for example, was in surplus before the pandemic and that has only grown since, leading to a postponement of expansion plans in the sector, which was all the rage just a couple of years ago.

“This year, about $670m worth of value has been obliterated and the lithium market is facing an oversupply with falling demand,” she said.

“It is important to observe whether China reintroduces stimulus measures to promote particularly EVs, as that will give an idea as to how quickly demand will recover,” she said. Smith does not see a recovery any time soon, and believes the global financial crisis will pale in comparison to the scale of the economic havoc wreaked by the COVID-19 pandemic.

That is ultimately what will shape the course of commodity supply and demand over the next couple of years, as well as the importance of ESGs. The timing and pace of any recovery is uncertain, but the growth of ESGs on investor radar screens is not going to be nipped in the bud anytime soon. ■