STATE OF THE PGM INDUSTRY

Keynote Address by Chris Griffith

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2019 PGMs Industry Day

1. Introduction

Good morning ladies and gentlemen.

Those of you that were at the PGM breakfast a year ago will recall Minister Mantashe questioning whether the PGM industry was, in fact, an industry in crisis.

Since then and owing to both the restructuring actions taken by the PGM companies in recent times and a reprieve in terms of PGM pricing, we're probably not in a state of immediate financial crisis any more. However, with several headwinds that we face as an industry, can we really say that the crisis is over?

I want to start today by briefly reminding us all how the PGM industry got into the recent crisis as there are important learnings as we endeavour to ensure the PGM sector is a sunrise and not a sunset industry.

I will then touch on the headwinds the industry currently faces. But more importantly, I want also to talk about the very positive outlook for the PGM market and the potential to grow our industry and ensure it can prosper in the long term.

2. Looking Back

Looking back to the period prior to the recent crises. For nearly 30 years, demand increased by about 5% per annum. Demand growth was anticipated to continue at this rate, yet it flattened at the time of the global economic crisis in 2008/2009 due to structural changes in the market and not just another cyclical downturn.

These structural changes to the market affected supply and demand and led to impact on price, costs and hence profitability of the sector, which saw the industry plunge into a financial crisis.

The main structural changes to the market included

1. substitution out of platinum in the gaseoline sector into much cheaper palladium;
2. rhodium thrifted out of some use in auto-cats after the price spike in 2008. Rhodium dropped from $10,000 oz at the peak to a low of $625 in 8 years. Producers lost about 20% of revenue by this drop alone; and
3. an increased presence of platinum recycling (from 0.5Moz in 2000 to 2.0 Moz) in a few years resulting in less primary supply needed from miners.

This was at time where primary producers saw a 44% decline in grades from 5.7 g/t to 3.2 g/t), mines were getting deeper and costs increased at 14% per annum from 2000, due to above CPI increases in cost of labour, fuel and electricity.

Certainly, we have seen an improved market sentiment over the last few years. The question is, is that sustainable or are on the cusp of another structural change.

It is my view that we are today on the cusp of another structural change to the PGM market and if we as primary producers, along with support from Government, don’t invest in demand creation now then there is a very real risk that that we will be facing another crisis in the future, but likewise we could be on the cusp of a longer term positive trend if we play our cards right. .

More on this a little later, as let me first touch on the current headwinds faced by the PGM sector here in South Africa.

3. Eskom and Load shedding

Probably the biggest challenge facing the mining industry – and South Africa's economy - is unreliable power supply. Added to this, we have already seen a 356% increase in electricity prices the past 10 years. This year the annual tariff increases which the National Energy Regulator granted Eskom on 7 March, has seen a tariff of 9.8% per year over three years, with an effective 13.8% in 2019, owing to the 4.4% increase to cover the Eskom shortfall of R7.7bn. In three years' time we will be paying an additional ~34% more for electricity.

The steep increase in power tariffs has a major impact on the mining industry. It's one of the contributing factors to significant cost increases, which has ultimately led to the significant job losses we see across the mining sector more broadly.

And while the recent price rally for PGMs – particularly palladium and rhodium – has delayed some of the projected job losses, the above-inflation tariff increases will have a negative effect on marginal and loss-making mines, resulting in further job losses as these mines are forced to restructure or even close.

In fact, last month, the Minerals Council warned that the most recent electricity price hikes could result in South Africa's gold and platinum mines shedding around 90 000 jobs over the next three years – nearly 15, 000 of them in the PGM sector.

Ladies and gentlemen, the energy situation in South Africa can only be described as a crisis, one which poses a significant risk to the economy in general and to mining in particular.

However, we as an industry are not just sitting back and doing nothing about this crisis. Through both BUSA and the Minerals Council we are assisting Eskom with a technical review of the power generation fleet and have offered further technical capacity. Also, many mining companies are looking into alternative energy sources.

At Anglo American Platinum, for example, we're looking at building a 75-100 MW solar plant to support our Mogalakwena mine and concentrator. And Sibanye-Stillwater is currently working on a 150MW photovoltaic project at its West Wits operations, with the first 50MW unit expected to be completed in the coming years. Our investments in alternative energy will help to provide us with reliable and reasonably priced power. There are however still regulatory and policy hurdles to overcome to enable us to generate our own electricity.

4. Carbon Tax

One advantage of alternative, renewable energy sources is they would mitigate the impact of the Carbon Tax Bill, which is set to come into effect in June of this year.

We can all agree that in principle we want to transition to a lower carbon economy. However, the carbon tax will put further cost pressure on currently marginal or loss-making operations, with further closures in the industry possible.

As a marginal industry, mining is particularly susceptible to the effects of anything that adds to our input and production costs.

Even without a carbon tax, South Africa is likely to achieve a reduction in greenhouse gas emissions of 13 to 14.5 percent by 2025, and of 26 to 33 percent by 2035 – below the national benchmark trajectory – so we have to ask whether this is the right time to implement such a Bill, especially if the end result could be to increase unemployment.

The message from the mining sector to Government is simple: Don't do it. This is currently just an additional tax, not a means to decrease carbon. If the real intent is to reduce the carbon footprint, then allow us to implement renewable energy projects, with the right policy environment.

5. Unemployment and Job Losses

We are very conscious of the severity and social consequences of South Africa's unemployment problem with one of the world's highest unemployment rates, at around 27%.

Unemployment has a direct impact on the mining industry and is a leading cause of unrest in mining communities, with 41% of all protests recorded by the ISS's 'Protest and Public Violence monitoring system' being related to unemployment and demands for jobs.

It also underlies some of the high wage demands that make industrial relations often difficult in the sector. Each mineworker's wage is estimated to support up to 10 people. Given that there are roughly 465 000 people directly employed by South Africa's mining industry, and a further 1.4 million indirect jobs mining creates in other sectors, there are up to 20 million people in this country who rely – directly or indirectly – on mining for a living.

All of this makes job losses a cause for significant concern, and the PGM industry has unfortunately had its fair share of job losses. Of the nearly half a million people currently employed in mining, around 170 000 work in the PGM industry. This is 30 000 fewer than a decade ago. This decline in employment can be attributed to the restructuring that we've had to do over the past few years to remain solvent in the face of the recent crises.

Thousands of jobs remain at risk. The recent rally in the PGM basket price has resulted in some of planned job cuts being delayed, but the fact remains that the sector is still in a precarious position. As an industry we are cognisant of the unemployment challenge and we must find the balance between ensuring the industry is competitive and sustainable in the longer term and minimising the shorter-term pain of restructuring.

6. Labour Unrest

Against this backdrop, we also have the recurring tensions between organised labour and the mining companies.

The most recent incident in the PGM sector took place in February, when AMCU threatened to bring South Africa's platinum industry to a standstill via a week-long secondary strike, in support of the union's members in the gold sector.

You will probably know that AMCU members at Sibanye-Stillwater have been on strike since November, and the strike has seen nine people killed in violent clashes.

Fortunately, the secondary strike was ruled unprotected in mid-March, when the judge found the action would not be reasonable or proportional, and pointed to a track record of violence and intimidation in the sector. AMCU have subsequently lodged an appeal which will be heard in due course.

As the PGM sector enters wage negotiations in 2019 it is worth reflecting on the fact mine workers are now the highest paid industrial workers, alongside Eskom employees.

Also last year, nearly half of all value created across the mining industry – 47% – went to employees, despite the pressure the industry is under to remain profitable. A further 24% went to government in the form of taxes and royalties, which go to pay for the education, health care, and social development grants of millions of South Africans. In comparison, and despite common misconceptions, only 6% went to shareholders.

AngloAmerican

7. Community Protests and Expectations

It’s not just striking workers who can impact an operation. Community protests often take place in support of industrial action and other grievances, compounding the effects. In South Africa, community-based protests against mining companies are rooted in socio-economic issues, such as unemployment, infrastructure development and poor service delivery by local municipalities.

Other protests are driven by safety and environmental concerns, communities’ perceptions that mines are neglecting their SLP commitments, corruption, land ownership and use, mine ownership, and illegal mining.

Around 15 000 crowd-related incidents take place in South Africa every year, and around 3% of these are mining-related. This equates to roughly 35 incidents in mining communities every month. Our own experience at AAP tis this number may be conservative. These incidents often have a significant effect on mining activities.

Whilst not the focus of today’s session, it is certainly worth mentioning that the industry is doing an incredible amount to support communities in terms of local community development spend, local procurement, local employment and collaborating with municipalities to address needs. For example the recent donation of land and bulk services to the Rustenburg local municipality by Anglo American Platinum.

However when the need and expectations are so high, it is always going to look like mining companies are not doing enough.

8. Illegal Mining

Another issue affecting both the mines and the communities around them is illegal mining, which is on the rise in South Africa, in the PGM sector its associated with the chrome and of course is a major concern in the gold, diamonds and aggregates sectors. Which, in the interest of time, I will not go into detail today and I know the Minister and DMR is tackling illegal mining head on.

9. Regulatory Certainty

Clearly one of the main ways in which government can support a stable and productive mining sector that will benefit the South African economy is by working with industry to grow investor and customer confidence. And to do this, we need to create regulatory certainty. The central – and most controversial – piece of mining-related legislation over the past few years has been Mining Charter III and MPRDA.

Since the first draft of MCIII was published for public comment in April 2016, there have been various High Court applications, calls for a change in political leadership at the DMR, unsettled investors and adverse pronouncements by sovereign credit ratings agencies.

Most aspects of the charter gazetted in September last year represent a reasonable and workable framework and is a major step forward from previous drafts of the Charter. The sector is encouraged by the Minister's approach to engagement and desire to create regulatory certainty. However, a few problematic clauses remain. Two weeks ago, the Minerals Council filed an application to have certain clauses of the 2018 Mining Charter reviewed and set aside.

The specific provisions that remain a concern are those that deal with the continuing consequences of previous empowerment transactions, particularly when it comes to mining right renewals and rights transfers. Although the industry is still in talks with Minister Mantashe and his team about resolving these issues, this application – which had to be filed within 180 days of the Charter being published – is intended to cover our bases legally if these matters remain unresolved.

Despite what some parties may be saying, this application is not an attempt to block transformation in the mining sector – a goal that we are all committed to achieving. But for this goal to be realised, we need a minerals policy framework that conforms to the rule of law and is consistent with other South African legislation, particularly the MPRDA.

I am confident that with the industry and government working together, we will be able to reach a common accord, and achieve transformation within the mining industry. This will not only result in a competitive PGM and mining sector, but also in economic growth, job creation, and social upliftment and development.

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I have painted a rather gloomy picture the past few minutes or so by reflecting on these headwinds. But I am actually not gloomy about our industry at all. It is true that there is currently conflict, controversy and uncertainty, subject to external factors – such as the power crisis - beyond our control. The headwinds are real, and must be navigated carefully. There are steps we can and must take – in partnership with government and our other stakeholders - to ensure our long-term sustainability and that we remain a sunrise industry.

I believe we have a bright future. We are already seeing the fruits of some of our past endeavours, and with continued investment, careful planning and renewed commitment to market development, I strongly believe that we can build an industry that will not only grow, but thrive.

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10. Price Rally

I alluded earlier to the financial crisis that we have just recently clawed our way out of, through both the restructuring actions taken by the PGM companies in recent times, and a reprieve in terms of PGM pricing, particularly from palladium and rhodium.

Overall the medium-term demand outlook for PGMs is positive.

- The outlook for the platinum group metal markets this year is mixed. Platinum is set to underperform but palladium, in particular, is expected to remain in deficit driven by strong automotive demand.

- Let me remind you that, platinum demand is shared between industrial, autocat and jewellery. In the short term, there is likely to be strong growth in industrial demand (dark green), whilst global jewellery demand is stabilizing (amber) and we as producers have an opportunity to turn this around.

- In the short term it is clear that there are headwinds for the European light duty diesel sector, but over the medium term, it is anticipated relatively stable automotive demand for platinum (light green) will prevail as heavy duty diesel demand offsets light duty diesel declines and some substitution into the gasoline sector takes place.

- In both palladium and rhodium, demand is dominated by the gasoline autocat sector (dark green). While industrial demand for both metals may weaken in 2019 (light green), automotive demand is rising, based on higher sales of gasoline cars and tighter emissions rules in many countries. Therefore, the outlook for palladium demand is positive over the short to medium term and the outlook for rhodium is also positive.

All these positive fundamentals for PGMs saw a 12 and 13 percent increase in the rand/dollar basket price during the course of the last 2 years and a ~25 percent increase in the basket price so far this year.

Looking further out, it is evident that there is very real and credible progress being made in the development of the hydrogen economy and fuel cells. There is potential to create a new sizeable demand segment for platinum.

Consequently, and for the first time in a long while, we don’t have a significant percentage of PGM mines that are loss-making. From recent analyst research conducted the consensus is the industry cost curve shows that, at current commodity prices, all companies are back in the black.

In my introduction I mentioned we are again on the cusp of another structural change in the PGM industry and much of which direction it takes will be in our hands. On the positive side, there is likely to be switching of platinum back into the gasoline sector in the next few years which will be a positive change for platinum, without undermining the strong palladium fundamentals.

At the same time there are negative threats to PGM demand in the traditional automotive sector from battery electric vehicles, ride sharing and autonomous driving. Whilst the jewellery, investment and hydrogen economy’s potential demand for PGMs will depend largely on us and how we shape the future.

There are still headwinds that could affect this, but moving forward we have an opportunity to consolidate and create an industry that is more resilient, and could generate cash to invest in future growth projects.

11. Growing the Market for PGMs

Perhaps the greatest factor in ensuring the long-term sustainability of the PGM industry is the demand for these metals. That's why growing the market in jewellery, industrial and investment segments will require a concerted and co-ordinated effort by the producers, public and private sectors, supported by the framework of a national PGM strategy

Whilst some demand growth takes care of itself, such as rising demand for palladium and rhodium in gasoline vehicles' catalytic converters thanks to a continued expanding demand from the automotive sector, some require active intervention.

So how do we do this?

PGI, jewellery:

Research and past performance have shown that the best lever we can pull to grow demand for platinum is stimulating jewellery demand, as this gets us the best return on market spend. So we must drive this by finding ways to increase funding of the Platinum Guild International.

I am not sure how many of you know that before the work carried out by the PGI to develop the Japanese platinum jewellery sector in the 1980's, and China in the 1990s, demand for platinum jewellery there was minimal. So, through the PGI we have proved that market development works, and has delivered over one a half million more ounces of demand per year, the size of more than 3 Mogalakwena mines. We need to support and fund the PGI to address the declining Chinese jewellery sector, which still offers the single biggest growth opportunity globally, as well as focus on other regions, such as the work Anglo Platinum has done with the PGI in India where we believe the market is well on the way to being a 500koz platinum market, and a completely differentiated and incremental jewellery category to gold.

The PGI's success is a positive long term story and we need to invest more – we simply cannot allow the jewellery market in China to lose 100-200koz platinum ounces per year, the size of a medium sized platinum mine each year, as it is doing at the moment. PGI is ready with a commercial plan for the Chinese Tier 2 & Tier 3 markets that will increase demand by as much as 620 Koz per year. While we are actively looking for additional funding from new PGI sponsors, we all have to do more now, particularly whilst the basket price is in our favour.

WPIC/investment:

As most of you will know the South African producers developed the World Platinum Investment Council. Again, the logic was simple: given that investment is an important potential source of demand for all of our metals, could we trigger increased interest in, and longer-term holdings of platinum?

Japan provides an attractive case study. Patient work over a long period of time by companies such as Tanaka, have developed a strong and diverse platinum investment sector in that country, where consumers can choose from physical products like coins and bars to physically backed accumulation plans.

So, the WPIC has worked with its partners, to drive additional investment demand, taking some of the experience from Japan and from the gold investment sector too. It has worked on increasing the availability of platinum investment products to allow consumers who already want to buy metal to do so more easily. It has worked to generate new types of investment product which have not existed before to meet investors' needs and the industry's requirements, in order to widen the potential pool of investors. And it is looking at how to increase the desire of other classes of investors, from family offices to the official sector, to own this metal.

So far in 2019 the WPIC informs us that there is significant platinum ETF purchasing in 2019 of 680 koz, suggesting that despite the surplus in 2018 investors see platinum's outlook as the most appealing since 2013.

Industrial:

So, what about the long term? For that, diversification of demand seems to be the key, not just for platinum but for all the platinum group metals. The PGMs are materials with unique attributes and they should find a role in a whole host of areas tied to longer term societal trends, from medical treatments to clean energy. However, just because they are great materials, we can't trust demand to miraculously appear.

Through AP Ventures, which was set up by Anglo Platinum in partnership with the PIC, we have invested in a number of companies using PGMs in new applications, often related to hydrogen and fuel cells. This is a story that has been oversold before but there is today clear credible progress on the ground, in hydrogen production and distribution areas, where we have invested in new companies and new PGM-based technologies.

The provision of government subsidies in California, Japan, Korea, Europe and in China for fuel cell vehicles now, at last, has the potential to coax this technology into commercial reality. Again, this has largely happened under the radar, in sharp contrast to the high-volume hype related to the battery electric vehicle. The Chinese Government now has realistic targets for annual fuel cell vehicle sales of eight hundred thousand units by 2030, suggesting that this sector too is well on the way to contributing a further half million ounces of demand annually by that date, if we continue to support progress in this area.

In all these cases, and as we heard from Roger, co-funding and support from government by introducing a platinum coin, holding platinum as a reserve asset, co-funding PGI and WPIC initiatives and tightening local vehicle emissions from the current Euro stage 2 to Euro stage 5 would further stimulate demand, aiding in the country's economic growth. Estimates show that an additional ~R2.7bn per annum would be collected in taxes by Government if one million ounces of new annual platinum demand is created and close to an additional 50,000 jobs would be created.

12. Modernisation

Lastly, the best way to take maximum advantage of a growing market – and ensure we are resilient to any setbacks – is for us to invest to make sure our industry is as modern as it can be. Modernisation of the PGM industry in South Africa is crucial to our global competitiveness and future sustainability.

We must work towards a future that, through collaborative partnerships between stakeholders, we will shape an industry that is safer, more sustainable and efficient, and better harmonised with the needs of our communities and of society as a whole.

We need to adopt a multi-stakeholder approach that is broken down into achievable goals. We need to modernise not only our operations, but our labour relations, and relationships with our communities. All stakeholders need to have a full understanding of what the modernisation of the industry entails, and how this will benefit them in the long run.

13. Conclusion

This is an important moment in the life of the PGM industry. We are on the cusp of another structural change in the market. The world is going greener, with tougher emissions standards in many first world countries. This can be good for the PGM industry, as can the development of new and exciting technologies such as hydrogen fuel cells. In the jewellery and industrial space too, there is plenty of potential for our industry in new products and new markets.

But to take advantage of those trends and ensure we don't risk slipping into another crisis like the one we have just seen, we as an industry need to invest now in demand creation.

We also need to ensure that our own industry is competitive. But we cannot do this on our own. If we are to deliver on our industry's huge potential we will need to work in partnership with our stakeholders and making it happen will require political will, social cohesion and a good dose of pragmatism.

Thank you for this opportunity to share with you and for your time.

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