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Why post-COVID-19 is a good time to beneficiate

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Who makes the best chocolate in the world, the Swiss or the Belgians? Either way, neither of these countries owns vast tracts of cocoa plantations. They import the raw materials to make the chocolate. Yet we would all agree that the greatest economic value is unlocked when cocoa beans become chocolate. It is sad to say that resource-based economies are not the wealthy ones.

The Scottish economist and philosopher Adam Smith, who published *The Wealth of Nations* in 1776, is generally regarded as the father of modern economics. He argued for division of labor and famously advocated that if tasks were divided up, workers could collectively improve their productivity. A notion modernized by Henry Ford in the development of the model T production line.

Beneficiation means to take raw material and to transform it to a higher value product. Applying this principle to mineral extraction, the key to unlocking wealth is the beneficiation thereof to the higher value products. For example, take chromium ore and transform it into ferrochrome, then take ferrochrome and use it in the production of stainless steel and then use the stainless steel to make end products. Such a division of labor at a macro-economic level creates wealth.

Almost a decade ago, in June 2011, the Department of Mineral Resources and Energy (DMRE) published a Beneficiation Strategy for the Minerals Industry. South Africa has been a resource economy for more than a century and is in need of a paradigm shift. We must focus on strategic investment in assets to maximize long-term growth beneficiation projects, enhance value exports and increase sources for consumption of local content.

Unsurprisingly, the Beneficiation Strategy identified the lack of infrastructure as one of the barriers to the development of downstream beneficiation. Shortages of critical infrastructure such as rail, water, ports and electricity supply would, according to the DMRE, pose a major threat to future growth.

There is no doubt that once South Africa emerges from the current lockdown, there will be a renewed look at ways in which to restructure businesses, *firstly* to absorb the negative impact and ensure survival, but *secondly*, to improve their global competitiveness in a post-COVID-19 world. The mining industry will not escape restructure. Many mines were marginal operations to begin with and the economic fall-out will send some mines over the fiscal cliff.

It is perhaps in such calamitous circumstances where the opportunity lies for the DMRE to use its regulatory tools to promote downstream beneficiation and so accelerate the healthy metamorphosis of the mining industry.

Section 23(2) of the Mineral and Petroleum Resources Development Act, 28 of 2002 (MPRDA) provides that, when considering an application for a mining right, the Minister of Mineral Resources and Energy may have regard to section 26, which in turn provides that if the Minister, in consultation with the Minister of Trade and Industry, finds that a particular mineral can be beneficiated economically inside South Africa, then the Minister may promote such beneficiation, subject to any terms and conditions the Minister may determine. The principles of section 23 also apply where applications are made to the Minister to transfer a mining right from one holder to another (as would be the case in a restructure).

However, paying lip-service to the regulatory provisions and encouraging private investors to build downstream beneficiation plants at great cost is not enough. A coordinated approach is needed, which would include the following:

- Tackle the issue of electricity. Unstable and expensive electricity makes the building of processing and refinery plants uneconomical. During the Mining Indaba in February 2020, the Minister announced that he would investigate how mines (and downstream beneficiation plants) could generate their own electricity. A plan is urgently needed to remove the various regulatory barriers to the construction of private power plants, so that they can be owned independently, financed accordingly and then continue to feed into the national grid once the operations they service come to an end. Independent power producers have been lobbying government for decades to get this right – the time to do it is right now.

- Improve the efficiency of the state-owned rail transport network. Beneficiated product will still have to be exported. Business needs a reliable, efficient and stable logistics network to export product. The current over-reliance on road transport is not sustainable. Public money will have to be spent on improving the rail transport network and the management thereof.

- Entice investment; make it attractive to invest here. Tariff incentives, tax breaks and other financial incentives will go a long way to demonstrate to investors that there is economic benefit to developing a downstream beneficiation industry.

- Speed it up. Although we all accept and appreciate that regulatory red-tape is a necessity, it is advisable that the regulatory approval process be streamlined and expedited. The one-environmental system should seamlessly and efficiently interlink with other approvals needed. The easier and more user-friendly the approval process, the more likely we will see investment.

And what will all this bring? Sustainable investment brings sustainable employment, which grows the economy and creates wealth. Now, more than ever, business, labor and the public at large are waiting with bated breath for decisive governmental leadership to steer a course for economic recovery. Perhaps, when all is said and done, South Africa could emerge from this world crisis stronger and better placed to compete for investment.

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