

# COVID-19 – What will the SA mining industry look like after the pandemic?

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It is fair to say that although the South African mining industry represents 8% of our GDP, and employs approximately 450 000 people, by 2019 figures, it is SA's sweetheart industry. The mining industry was one of the first industries to be permitted to resume activities during the lockdown (and in some instances did not even fully shut down at all).

Mining is a sunset industry. Minerals are finite. Their extraction becomes more challenging every year, as mines have to go bigger and deeper to access minerals. At some point we will run out of mineable resources, but for now it is projected that there are still approximately \$2.5 trillion of mineral resources in the country. No picture of SA's future is complete without taking into account what mining can contribute.

Any prediction of the industry's future must inevitably consider the impact of the COVID-19 pandemic globally, but must also consider what transpired over the past quarter of a century since the dawn of our democracy.

In the mid to late 1990s, mining was controlled by approximately seven large mining groups. They operated like mini-governments and had large service departments, including research and development budgets. The re-entry of South Africa's mining industry into the global economy has contributed to the fundamental restructuring of the old "mining house" system, as doors opened to international investment and movement of currencies relaxed. Over the past 25 years, we have seen:

- A new mineral law dispensation where the old Roman-Dutch law of mineral ownership was replaced with governmental custodianship. This was radical, but was needed to wrestle the economic power away from the mining houses and enable junior minors to enter the industry. This has also brought regulatory oversight as to who can own mining rights and under what circumstances a transfer of those rights can occur.
- Mining operations have been deconcentrated through various spin offs to smaller operators. This, coupled with the opening up of new mining right applications post the deconcentrating of mineral rights, has brought many entrants into the mining industry. Although the bulk of mining is still in the hands of majors, there are now

in excess of 58 mining companies who are members of the Minerals Council (previously the Chamber of Mines).

- The development of a social and labour responsibility mindset, where mines acknowledge their licence to operate within host communities and focus on leaving a sustainable legacy once the life of mine comes to an end.

The COVID-19 pandemic may prove to be the ultimate disruptor or accelerator of change to the industry, where the normal strategies of risk mitigation such as weathering currency and commodity fluctuations may prove ineffective.

In looking forward there are three themes that will drive the metamorphosis of the industry:

- *Technological research and development*: To remain competitive, the industry will have to spend more on technological research and development as it used to under the mining house system. We will need new technologies to unlock the country's remaining mineral wealth and this may include artificial intelligence and deep level remote mining employing skilled operators, rather than sending workers underground. This is an emotional issue, as the argument is often made that technology will replace employment and in a country where we are teetering on an unemployment rate of 30.1%, this is not an insignificant consideration. Although one has great empathy with such a concern, it is not a question of choosing or rejecting technological advancement. Without it, some mineral resources cannot be mined at all and for the rest, it is important that mines remain competitive. Technology is the only answer to delaying the inevitable death of the industry once our mineral wealth runs out.
- *Economies of scale* – small mining operators remain more vulnerable to internal and external threats. Larger companies are able to spread the risk among their operations, capitalise on economies of scale, attract better investment and unlock funding.
- *Infrastructure challenges* – the stability and cost of electricity supply remains the primary infrastructure challenge to the industry. Small mining operations cannot solve their electricity demands themselves. It is encouraging that Government is developing strategies to permit and encourage private electricity generation, but the capital costs thereof puts this beyond the reach of small and medium mining operations.

The future may very well look a little like the past. We should anticipate the consolidation of mining interests and operations over the next few years into the next decade. In the post pandemic jungle, the evolution of the mining industry will ensure that only the fittest survive. To be able to capitalise on these opportunities, mining companies will need to be bigger and stronger.

But these trends were there before COVID-19 anyway – all that will happen now is that the financial stresses on small and medium mining operations will accelerate the process, where financially distressed mining operations are the low hanging fruit to the astute mining investor.

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