



ECONOMIC IMPACT OF COVID-19 LOCK-DOWN ON THE SA ECONOMY

Determining the economic impact of the 21-day lock-down on the mining industry is a complex issue given that many variables will influence the outcome. Key considerations are the impact of the measures implemented, as well as the specific circumstances of each commodity and the various mining processes involved.



Contribution of the mining sector to the South African economy

Mining remains a significant contributor to the economy (8.1% of GDP in 2019), fixed direct investment (R94.7 billion in 2019), export earner (R348.2 billion or a third of export earnings in 2019), employing around 454,900 people in 2019. For every direct mining job, there are at least two other jobs created in allied industries. Each mining employee supports between five and 10 dependants. The sector is a significant source of primary income for the economy and based on a GDP multiplier of some 2.27 times, creates significant economic activity in the rest of the economy.



Finding a way forward

The Minerals Council is fully supportive of the fight against COVID-19, and the measures put in place by the South African government to curb its spread. Together with the Department of Mineral Resources and Energy (DMRE), the Minerals Council and its members have prioritised the health of employees, and at the same time committed to delivering essential services and limiting the damage to the operational abilities of the sector to enable full resumption of operations after the lockdown period.

The industry's high fixed cost structure and high debt leverage ratio, combined with the inability to produce sufficient volumes will lead to the permanent closure of some operations and even companies, job losses and substantial negative impact on supplier and downstream industries, ultimately affecting the entire economy.

The Minerals Council has recommended several measures to support the mining industry during this unprecedented period, including improved licencing requirements for exploration; access to environmental trust funds; redirecting Social and Labour Plan (SLP) funds to help communities; several proposals to Treasury on possible tax relief; and a moratorium on contributions to skills development levies, amongst others.

The safety and health of employees must remain a priority throughout with a focus on:

- 1  equipping employees with the knowledge and means to be able to protect themselves and their families
- 2  putting in place the systems and standard operating procedures that apply best practice knowledge on hygiene and social distancing
- 3  screening and detecting employees who are ill, and provide for quarantine facilities where this is necessary
- 4  providing medical care for employees, and where possible, for families and communities as well



The Minerals Council and its members believe that it is possible to get mining back to work at production levels higher than 50%, while ensuring that all the preventative and mitigating measures are in place to safeguard the health of employees. The proper implementation of the Minerals Council 10-point action plan combined with the DMRE Principles and a carefully constructed list of Standard Operating Procedures (SOP) for the start-up period would enable the industry to find this balance.



Impact of the 21-day lock-down



Production

The economic impact of the lock-down on mining production is significant. If mining operations were to resume after 21 days, annual production would be 5% lower than in 2019. A longer period of lock-down could result in annual mining production declining by more than 15% for the year.



Financial losses

Mining has some of the highest fixed costs of all sectors – 51% on a weighted average basis. While in theory, variable costs can be paused during a lockdown, fixed costs cannot. This will have a serious detrimental impact on the financial viability of mining operations due to the significant decrease in revenues received by mining companies during the lock-down period.

The mining sector's debt leverage ratio is 1.7 times. Liabilities (current and non-current) are 1.7 times the value of the sector's equity. This combination of high fixed costs and a high leverage ratio will seriously prejudice the viability of a number of mining operations.



Jobs

Preliminary estimates for a 21-day lock-down scenario suggests that 10,000 jobs would be at risk. A longer lock-down period, with lower production and no mechanisms in place to support the industry, could put 10% of the workforce or 45,000 direct jobs at risk. This excludes jobs in supplier industries.