



**BUDGET VOTE SPEECH OF THE MINISTER OF MINERAL RESOURCES AND ENERGY
HON. SAMSON GWEDE MANTASHE (MP) DELIVERED BY MINISTER KUBAYI-
NGUBANE
ON THE OCCASION OF THE TABLING OF THE BUDGET VOTE 34
TO THE NATIONAL ASSEMBLY, 21ST JULY 2020.**

House Chairperson

Chairperson and Members of the Portfolio Committee on Mineral Resources and Energy

Honourable Members of Parliament

Chairpersons and CEO's of all the Mineral Resources and Energy State Owned Entities

Team Mineral Resources and Energy

Ladies and Gentlemen

Hon Members, I'm honoured to deliver this budget vote speech on behalf of Minister Mantashe who is currently recovering from Covid-19. I take this opportunity to wish all colleagues and all South Africans who tested positive strength and speedy recovery. We must at all times do our part by wearing our mask, washing our hands regularly, and observing social distance.

This is the first single budget since the merger of the Departments of Mineral Resources and Energy. The merger provides for an integrated, adequately capacitated department to implement programmes in line with the seven priorities of the 6th administration, as outlined by the President of the Republic. We can now align policy to better promote investment in the sector to the advantage of our national economy.

Passing of the Deputy Minister Bavelile Hlongwa, MP

Honourable Members, in September 2019, three and half months after our appointments in May, death robbed us of our Deputy Minister, Ms Bavelile Hlongwa. During those flitting moments, her forthrightness; her passion and sharp mind, lit a spark throughout our sector. In her, the country has been deprived of a brilliant young leader, cut from the same cloth as our great forebears. Long live the spirit of Comrade BV!

Mining and Energy Sector and the Impact of Covid-19

Chairperson, before the COVID-19 pandemic, mining had been in a downward spiral for at least six years with a number of operations being placed on care and maintenance and job losses. The covid19 pandemic did not spare this sector from its ravages. Based on statistics released by StatsSA at the end of June, the impact of covid19 in the mining sector, like in many sectors is glaring. Mining was the most significant contributor to the economy's poor performance in the first quarter. Mining activity slowed by 21,5%, the biggest slump in six years. Iron ore, manganese and chromium were the biggest drags on mining growth, offsetting positive gains made by coal, diamonds and platinum group metals. The set of interventions proposed in the country's economic recovery plan which is in its final stages are geared towards

ensuring the sector does not only bounce back, but that it bounces forward on a sustainable growth path.

Honourable Chairperson and Members, the Department is inundated with notifications of threats to job losses in the industry. The Department will continue to engage with mining companies, labour and other relevant stakeholders to collectively come up with measures to save jobs and where jobs cannot be saved, to ensure that the impact on those who are retrenched is ameliorated. The ultimate objective will be to look at what should be done to ensure that the retrenched workers re-enter the labour market.

The Social and Labour Plan continues to be an instrument used to improve the quality of life of communities. Companies have continued to implement the commitments made regarding the development of mining communities. In the last financial year, *one hundred* (100) local economic development projects were implemented.

The department and the companies have had to adapt their operations to the new normal of the pandemic. We are cognizant of the enormity situation and continue to work together in line with the Gazetted Energy Directives and Mining Guidelines, issued in March, April and May 2020 to manage the spread of the virus.

As of 16 July 2020, the South African Mining Industry has reported a total of five thousand one hundred and twenty one (5 121) COVID-19 positive cases, with two thousand one hundred and ninety (2 190) recoveries, and forty two (42) deaths across the sector.

Honourable Chairperson, we extend our condolences to the families of all the workers in the mining and energy sectors who lost their lives to Covid-19 and we wish speedy recoveries to those who have tested positive.

On May 18th 2020, the Chief Inspector of Mines issued a guideline in accordance with Section 9 of the Mine Health and Safety Act of 1996 to compel all mine employers to prepare and implement a Code of Practice for the prevention, mitigation and management of the COVID-19 outbreak. Inspectors have worked tirelessly, conducting inspections and monitoring compliance with measures to prevent, mitigate and manage the spread of the Corona virus among mineworkers. This work continues as the mining industry ramps-up to full capacity under Level 3 of lockdown, and compliance with all regulations and directives issued by government and the department remain compulsory.

During the Level 5 of lockdown, most refineries had shut down due to a decrease in demand for petroleum products because most businesses were closed. This has changed with the re-opening of the economy, as we moved to Level 4 and 3. Refineries

have re-opened and are at full capacity despite earlier re-start challenges that led to temporary minor rationing of diesel to wholesalers which, in turn, affected retailers.

We are alive to the shortages caused by reported tampering with the pipeline network, either through attempted theft or the actual theft of fuel. This criminal activity threatens the security of fuel supply and endangers health and safety in nearby communities. Retailers and members of the public should refrain from purchasing fuel from unregistered traders and, instead, report them to the law enforcement agencies.

With a widening budget deficit our fiscus is severely constrained. To stimulate growth in the economy, and alleviate pressure on the fiscus, Government should mobilise the private sector for infrastructure development. This is critical for energy infrastructure. We continue to leverage on the work of the Independent Power Producers Procurement Programme (IPPPP), which demonstrates that both private and public sector funds can contribute to infrastructure investments. The IPP projects signed under bid window 4 have now resumed construction of their plants as we speak.

Hon Members, Covid-19 does not only bring challenges but brings with it opportunities, happy to announce that **Mintek** is manufacturing World Health Organisation (WHO) standard sanitiser products. A commercial production facility is being finalised to allow for the supply of over one hundred thousand **(100 000) litres** of sanitisers per month. In addition, it has commenced with the development of capacity to locally produce antibodies and antigens, which are the active ingredients in the production of both diagnostic kits and vaccines. The development of this capacity will ensure that South Africa can become self-sufficient in its response to the Covid-19 pandemic, and the capacity will also assist in future infectious disease interventions.

Health and Safety

Honourable Members, safety in mining is improving, bringing us closer to our goal of zero-fatality. However, we still have challenges.

The 2019 Occupational Health and Safety Statistics show *fifty-one* (51) fatalities, the lowest fatalities ever recorded, representing a *thirty seven percent* (37%) improvement, year-on-year, compared to 2018. The sector did not record a mine disaster in 2019 which was for the first time since 2016. Thus far, this year, the number of reported fatalities stands at *twenty-three* (23), which is lower than the *twenty-four* (24) reported for the same period in 2019. There has been a decrease of 9.5% in the number of occupational diseases nationally

Seismic and gravity-induced fall-of-ground accidents remain the highest contributor to mine fatalities and injuries. The most prevalent occupational diseases are, *Noise*

Induced Hearing Loss, Silicosis and TB. The HIV and TB strategy to contain the high prevalence of HIV and TB cases is being implemented.

Honourable Chairperson and Members, A task team of the *Mine Health and Safety Council (MHSC)* and the *Council for Geosciences*, has been established to propose effective strategies to address this issue of seismicity. The MHSC has contributed R287 600 towards the seismograph network. In addition, it has identified and scoped Research on the development of portable machinery like Gas Detection Instruments (GDI) for purposes of monitoring seismicity. This project has been budgeted to cost approximately R2.5 Million and is being conducted as of April 2020 to March 2021. Furthermore, MHSC is currently conducting research to determine the capacity of mine health facilities to **accommodate communities** surrounding the mines.

Mining, Minerals and Energy Policy Development

Honourable Chairperson and Members, we are paying attention to policy to ensure certainty, strengthening the regulatory framework and mobilisation of funding for development of infrastructure.

Nuclear Policy: The Minister will soon publish the National Nuclear Regulator Amendment Bill and the Radioactive Waste Management Fund Bill for public comment.

Ministerial approval has been granted to National Radioactive Waste Disposal Institute (NRWDI) to embark on the establishment and operationalisation of an off-site above ground Centralised Interim Storage Facility for Spent Nuclear Fuel.

The Regulations for the Long Term Operation of Nuclear Installations, critical to the Koeberg long-term operation project, have been published for public comment.

In order to ascertain success in nuclear regulatory services, the NNR is focusing on the validation and verification of methods and procedures as per South African National Accreditation System (SANAS) requirements. In the next 3 to 5 years it is anticipated that the NNR laboratory would be fully capable to conduct its own verification. The regulator has been aptly considering the licensing of Koeberg Nuclear Power Station's Steam Generator Replacement.

Development of the Artisanal and Small-Scale Mining Policy: The department aims to develop an artisanal and small-scale mining policy. Currently the MPRDA does not define ASM concepts and does not sufficiently cater for the artisanal mining industry. Small scale miners are virtually treated the same as large scale miners in terms of environmental, water use, health and safety and financial provisioning requirements.

The department is currently busy with **Development of the Geoscience Act Regulations**: The Regulation provides for processes relating to the submission of all mineral geo-technical information and prospecting reports. This will empower the Council for Geoscience to compile the country's geotechnical risk profile and improve South Africa's attractiveness to investors.

The Gas Amendment Bill will be tabled in Parliament soon. This Bill prioritises infrastructure investment by, among others, constructing infrastructure to import liquefied natural gas and increasing exploration to find domestic gas feedstock to diversify the energy mix and reduce carbon emissions.

During the 2020/21 performance cycle, the Department will develop the **Gas Master Plan 2020**. We are also working to strengthen regional cooperation to develop regional gas market thus, our country's participation in the *Regional Gas Master Plan* development spearheaded by SADC.

In respect of **Liquefied Natural Gas** the department has established a Technical Working Group, which will produce a commercial business plan that will guide the development of the LNG import-export facilities across various ports of our country, including Richards Bay, Saldanha Bay and Port of Ngqura.

The **Shale Gas** research project in the Karoo, undertaken by the Council for Geoscience (CGS) and PASA, is moving towards ultra-deep drilling of a vertical borehole during the third quarter of the 2020/21 financial year. Budgeted in the region of R120.2million, it is estimated that the project will be completed at the end of the 2021/22 financial year.

With regards to the **Upstream Petroleum Bill** which was published last December for public comments, consultations with a broad range of stakeholders that is industry players, NGOs, government and others have been held. This Bill will be tabled in Parliament this financial year.

Energy Security

Numerous factors pose threats to energy security, and among these are: scarce and depleting resources, geopolitical instability, infrastructure inadequacies and natural disasters. We, therefore, need a coordinated and integrated approach to energy planning and coherent policy making to *firstly*, meet the rapid rise in demand; *secondly* increase energy supply in a globally carbon constrained environment; and *thirdly*, ensure security of supply and affordability of energy for all.

Honourable Chairperson, as indicated in the IRP 2019 and confirmed by the current load shedding, the lower than expected Eskom generation plant "Energy Availability Factor (EAF)" and the associated unpredictability of plant performance is a risk that

requires urgent supply and demand side interventions to complement Eskom's initiatives to improve EAF.

Under normal circumstances the Department of Mineral Resources and Energy would implement new generation capacity as indicated in the Integrated Resource Plan through the issuing of Ministerial Determinations in terms of Section 34 of the Electricity Regulation Act. The current circumstances are however "abnormal" as there is insufficient time to bring in grid scale generation options, due to long lead times. Typical lead-time for grid scale power generation projects is about 36 months (3 years) minimum and depending on permitting requirements, technology to be used and the size of the project.

With this abnormal situation at hand the Department has taken a holistic view to addressing the problem and has put in place a number of initiatives. These initiatives take into account both grid scale and small scale / embedded generation interventions.

Emergency Power Procurement and Implementation of IRP 2019: Following the request for information (RFI) exercise undertaken in early 2020, the Department initiated an emergency procurement programme for 2 000 MW. We are finalising emergency power procurement documents which we will put to the market by end of July 2020 or early August 2020 latest. We are also expecting NERSA to soon make a decision on the second Section 34 Determination which will enable implementation of the capacity in the IRP 2019. In addition to providing security of supply in the long run, this determinations are going to unlock investment in excess of R250 billion from various energy sources that include, coal, gas, renewable energy and storage.

Procurement of Additional Power from Existing IPPs: The IPP office is engaging the various IPP projects, including Eskom and the National Treasury, to secure existing energy at the least possible cost. The IPP Office indicates that IPPs have available 128MW, with 50MW of this capacity accessible without the need for additional grid infrastructure.

Eskom Short Term Power Purchase and Demand Side: There are facilities with generation for own use that are willing to sell through a short contract or through a flexible short-term contracting. Indications are that 550 MW is available. As these are not new generation capacity facilities, they do not require Section 34 Determinations and long-term Power Purchase Agreements (PPA). Eskom has, therefore, started the process of procuring this power with a Request for Proposal (RFP) having closed in April and May.

Generation for Own Use: The department has enabled this by removing the licensing requirements for certain category of *generation facilities under one megawatt (1 MW)*. One hundred and thirty nine (139) requests for registration have been processed by NERSA to date with capacity of 59MW. This capacity excludes installations under 1MW that register direct with local municipalities.

The department has also eased the licensing of generation for own use above 1 MW which is mainly to supplement power supply to commercial and industrial customers, including the mines. The IRP 2019 now makes provision for *distributed generation for own use above 1MW*, which takes away the need for a Ministerial approval for deviation from the IRP before NERSA can process a generation license application. *5 Licences have been issued to date*. The Department is also working with licensees to address challenges they may have.

Enabling Municipal Generation: In line with pronouncements by the President in the SONA 2020, the Department has proposed amendments to New Generation Capacity Regulations. The amendments are intended to ensure security of supply and orderly development as provided for by the IRP. They will also clarify the requirements from municipalities when they apply for Section 34 Determinations from the Department. The amendments have been consulted with the public and are being finalised for publication during the month of August.

Reduction of Tariffs for REIPPPP Bid Windows 1-3 through Re-Financing Initiative: In October 2019 we made a call to IPPs to look at reducing their tariffs as a contribution to lowering national electricity prices for consumers, and in support of stimulating economic growth. We are making progress and can report that more than 70% of the IPPs have responded positively to the invitation to refinancing as a way of reducing cost. This approach will benefit the consumers and the IPPs without undermining existing agreements as refinancing is standard practice in infrastructure investment.

Nuclear Energy:

Honourable Members, since the approval of the IRP2019, on 14 June 2020 the Department issued a request for information for the 2 500 MW nuclear power programme. This RFI is non-binding and is aimed at testing the market to inform the Department's planning for the delivery of the 2 500 MW nuclear power programme at a pace and scale that the country can afford. It is crucial that we get to understand the costs and funding and ownership options and types of possible technologies for deployment of the nuclear programme taking into account the Small and Modular type of Reactors that are soon to come on line.

The Koeberg Long Term Operation project and associated plant life extension activities is hardwired in the IRP 2019 thereby recognising the pivotal role that the plant plays in continued energy security for the country. The Koeberg Nuclear Power Plant units will reach the end of life in July 2024 and plans are underway to extend the life of this plant by an additional 20 years. The Department exercises oversight on the Koeberg Long Term Operation and Plant Life Extension activities through an established Technical Oversight Committee. The ***National Nuclear Regulator (NNR)***

continues to play a pivotal role in ensuring the independent safety licensing of important projects such as Eskom's Koeberg Long-term Operation (LTO) project

The SAFARI-1 nuclear research reactor is one of the three largest producers of medical radioisotopes in the world, used in millions of medical procedures. This reactor also holds the unbeaten record of operational availability for almost two decades. It is also one of the oldest operating reactors in the world and will soon reach its end of useful life by 2030. In this regard, in April 2019 a Task Team was established for development of the new Multipurpose Reactor Project to ensure that South Africa sustainably retains its globally leading position in nuclear research, development and innovation.

Despite the Covid-19 lockdown challenges, the **Nuclear Technology Product (NTP)** is back on operation and continues to safely operate whilst sending nuclear medicine around the globe to save lives.

Chairperson, the National Radioactive Waste Disposal Institute (NRWDI) has embarked on the path to establish a Centralised Interim Storage Facility (CISF) for long-term storage of spent nuclear fuel from the country's nuclear reactors. It is envisaged that the CISF will be operational by 2030.

Financials

Honourable House Chairperson and Members, the main appropriation for the Department of Mineral Resources and Energy budget has been adjusted from R9.34 billion to R7.76 billion

A reduction of R1.574 billion was applied and re-prioritized towards the COVID-19 fiscal response package.

Details of the implemented reductions are as follows:

- Goods and services (operational funds) – R41.7 million
- INEP-Eskom grant - R1 billion
- INEP-Municipalities grant - R500 million
- EEDSM Municipal grant R21.8 million
- SANEDI grant - R4.1 million
- NNR grant – R5 million
- International membership fee to IPEEC - R1.4 million.

The Department engaged both Municipalities and Eskom to agree on a criterion used to determine the portion of the budget reduction of R1.5 billion to be absorbed by the various Municipalities and Eskom for INEP grants. This reduction is on projects that are amongst others not ready for delivery and can be moved to outer years.

The transfer payments budget is distributed to implementing agencies as follows:

- R3.36 billion to Eskom and Municipalities for the implementation of the Integrated National Electrification Programme (INEP).
- R220 million for the Non-Grid electrification programme and
- R196.20 million to Municipalities for the Energy Efficiency Demand Side Management programme (EEDSM).

The public entities are budgeted to receive a combined allocation of R2.26 billion, with:

- NECSA allocated R939.4 million inclusive of R200.9 million for the decommissioning and decontamination of past strategic nuclear facilities and nuclear waste;
- Council for Geoscience - R520.9 million of which R268.3 million is earmarked for the Geoscience research library and geological mapping for exploration of mining;
- Mintek – R435.1 million;
- Petroleum Agency of South Africa - R134.5 million;
- SANEDI –R74.1 million;
- NRWDI – R49.4 million; and
- NNR – R40.0 million.

The Recovery Plan for Mining and Energy Sectors

Chairperson, the *Mining and Energy Recovery Plan* intends to restore and restructure the industry within the context of a renewed, sustainable minerals and energy complex pivotal in the reindustrialization of the country while transforming the mining and energy industry. The plan aims to restore business confidence, stimulate investment as well as safeguard and create jobs.

Covid-19 has had an impact on the Petroleum sector as a whole. The destruction in the demand of Jet Fuel is making the operations of refineries very challenging. The retailers have had to maintain operations when demand was below 60% of normal demand. We must appreciate that most of them tried to maintain the workforce even during the most challenging times. We will continue to engage and seek ways of mitigating the challenges caused by Covid-19.

Small Scale Mining Support Programme, as part of the mining sector, economic recovery plan will focus on the implementation of SSM Framework; forming partnerships with aligned departments and entities to leverage on their resources and experiences for maximum impact; widen reach by providing technical, social regulatory support for community based projects; as well as develop an artisanal and SSM policy as already stated. As of 1st April 2020 the Department has approved R38

million towards rehabilitation costs, exploration and capitalization of small scale projects.

Interventions to drive import substitution industrialisation within the ferrochrome sector: the department has already drafted a paper on a set of interventions to revive and increase the competitiveness and sustainability of ferrochrome sector. This paper will soon be presented to Cabinet for approval. These interventions will ensure that we derive maximum benefit from the comparative advantage of our mineral wealth, save jobs and place this sector on a new growth path.

Council for Geosciences (CGS) has intensified the identification and drilling of selected mineral target areas for quantification of priority minerals deemed critical for development, including input to pharmaceutical applications, food security, industrialisation and energy security.

A reconnaissance assessment of the Molteno-Indwe coalfield in the Eastern Cape and the Ga-Ramokoka Carbonatite Complex in the North West Provinces, respectively, has been concluded. Preliminary results in the Molteno-Indwe coalfields show an estimated economically exploitable coal tonnage of 320 million tonnes, with a value beneath the ground of R122 billion, using a conservative estimate of R350 per ton. The Ga-Ramokoka Carbonatite Complex hosts numerous minerals that span an estimated tonnage of Rare Earth Elements at 470 thousand tonnes, phosphates at 300 thousand tonnes and copper 30 thousand tonnes. The potential value of a suite of minerals in the carbonatite is estimated at R1.4 billion.

Mintek is working with industry and international researchers to develop a world class smelter complex to exploit the Bushveld Complex deposits, which constitute the world's largest unexploited repository of iron, titanium and vanadium. This will entrench South Africa's position as the leading supplier of vanadium and titanium, and funding of nearly R120 million has been secured for this initiative.

The South African iron and steel sector has been struggling with uncompetitive costs. One of the drivers is that up to 50% of the iron ore that is mined is discarded as fine and waste material. Mintek has developed technology to beneficiate this low grade and fine material and is working with industry players to implement the solution and significantly impact the current uncompetitive cost structure. It has also developed Fuel-cell catalysts and membranes are currently being commercialised with the aim of supplying the global market.

The partnership between **Pelchem** and **Mintek** to revitalize the State-owned pharmaceutical company, "Ketlaphela" is bearing fruits with the business case and the partnership transactions approved by the Minister of Mineral Resources and Energy in April 2020. "

As part of the gas industrialisation we are embarking on the **Liquefied Petroleum Gas (LPG) Expansion Initiative**. LPG is the most efficient form of energy for cooking, space heating as well as water heating, yet its contribution is below par. We will set a target to double consumption of LPG in South Africa over the next 5 years. This will alleviate pressure on the Eskom power supply. To ensure orderly development, all role players in the value chain will have to be registered with the Department. We will work with the Department of Trade, Industry and Competition to localise the manufacturing of gas cylinders and appliances.

Upstream Petroleum Development: Following the announcement of the gas condensate discovery in February 2019, Total and its partners are continuing with their drilling programme and have since procured the services of the Stavanger rig. The Nowergian rig will hit South African shores next month and will drill up to 18 months with a total investment of R1.5 Billion. This investment could not come at a better time and it will have massive multipliers on other economic sectors like tourism, fuel supply and the hospitality sector.

A resolution has taken to appoint the Council for Geoscience (CGS) as the implementing state agency of the **Carbon Capture Utilisation Storage (CCUS) project**, previously implemented by the South African National Energy Development Institute (SANEDI), a project co-funded by the South African government and the World Bank. Concerns around climate change and the just transition have necessitated a deliberate investment in research for clean coal technology that considers the carbon capture, sequestration and utilisation in order to reduce the nation's carbon footprint, in accordance with our ratification of international climate change protocols.

Rationalisation of entities within the CEF Group. On the 10th June 2020, Cabinet approved the request to merge three subsidiaries of the Central Energy Fund (CEF). The decision paves the way for the formation of the National Petroleum Company comprising of iGas, Strategic Fuel Fund (SFF) and PetroSA. The CEF Board was mandated to manage the process and ensure the establishment of the NPC within six months. CEF has appointed a professional restructuring company specialising in mergers to investigate the most viable model for the establishment of our nation's National Petroleum Company. In this endeavor AT Kearney from the USA is the lead partner supported by local consulting firms Mazars and Bayajula.

Conclusion

Honourable Members,

We are in the process of rebuilding a single, effective and efficient department. We must do this with minimum resources in a difficult climate brought about by the pandemic. Despite challenges here and there, we are working relatively well with our social partners. This department has the potential to emerge stronger and better skilled in the future.

I hereby table Budget Vote 34 on behalf of Minister Mantashe for your consideration.

I thank you