MINERAL RESOURCES AND ENERGY
REPUBLIC OF SOUTH AFRICA

REMARKS BY THE HONOURABLE
MINISTER OF MINERAL RESOURCES AND ENERGY
MR GWEDE MANTASHE
ON THE OCCASION OF THE COAL COLLOQIUIM
01 FEBRUARY 2022
COUNCIL FOR GEOSCIENCE OFFICES,
SILVERTON

Programme Director,

Deputy Minister of Mineral Resources and Energy, Dr Nobuhle Nkabane

CEO'S of Mining Companies and other Captains of Industry present

Director General of the DMRE and officials of various Departments

Our Host, the leadership of the CGS led by the CEO and other Executives

Officials from both the DMRE and CGS

Members of the media

Ladies and Gentlemen;

Introduction

Good morning;

We have organized this colloquium as a platform to engage on the challenges facing the coal industry and to flag out the possible areas where we can collectively put our minds together to resolve any bottlenecks impeding the growth and development of the sector. It is no secret that the coal mining industry is faced with serious challenges arising mainly from the downstream side in the usage of coal which is energy generation. As someone said, it is not coal mining that contributes to carbon emission but energy generation from coal. It should be noted that the coal mining and coal power generation industries are so interlinked that they are naturally lumped together when dealing with the challenges of carbon emission. Mining companies should naturally be concerned about the downstream usage of coal and how we can

investigate technologies and innovations to help move from higher to lower carbon emission as part of our just energy transition.

Whilst as a country we committed to combatting climate change as a consequence of burning coal in power stations, we have three major factors to consider pertinent to our national realities. Firstly, South Africa is highly endowed with coal, the statistics of which I will elaborate on shortly. Secondly, South Africa is highly depended for its baseload and therefore energy security on coal generated energy. Thirdly, the coal mining and energy generation industries do not only bring massive revenue but also employs thousands of employees. The critical question then becomes how can we respond to these national realities? This is what the energy transition discourse and programme must engage with.

We arrange this meeting mainly because this discourse on the challenges facing the mining and energy generation industries cannot be that of the Ministry of Mineral Resources and Energy. It is an industry discourse. The coal mining industry must take the bull by the horns in clarifying what must be the national development trajectory with regards to the usage of coal against the background of the attendant challenges that I have alluded to. We need to hear from the captains of industry as to what are their envisaged roles and what areas of support or synergy so that as a country we can move forward as one.

Importance of Coal in the SA Economy

Coal is the second most important energy source in the world after oil. It is also one of the cheapest and abundant energy carriers. Coal power continues to

play an important role in improving the welfare of communities across the globe, having lifted hundreds of millions of people out of electricity poverty and spurred industrial development in many nations. In South Africa, it is and remains an essential component in the country's energy mix, accounting for 70% of primary energy consumption, 95% of electricity generation and about 30% of petroleum liquid fuels. Coal is also an essential component of the iron and steel production, cement manufacturing, ferroalloys, industrial and manufacturing sectors. South Africa is ranked amongst the top ten (10) countries globally in terms of reserves (no. 6), production (no. 7) and exports (no. 5). South Africa is host to considerable mineral reserves of strategic significance to the global economy with recent studies estimating the mineral preliminary gross in-situ value of South Africa at 9.6 trillion USD 9.6, an almost 290% increase from the previous estimate of 2.5 trillion USD 2.5. Of these, over 43% are coal resources, followed by PGM's (31.5%) and gold (11.7%).

According to DMRE Statistics, the coal sector produced approximately 248 Mt of saleable coal in 2020. Coal was the highest revenue earner, contributing 21.4 percent (R130.57 billion) of total mining revenues (R608.99 billion). The coal sector was the highest earner of total local sales revenue contributing 53.42 percent (R85.02 billion) of (R159.16 billion). The sector generated 10.13 percent (R45.55 billion) of total foreign exchange earnings (R449.83 billion). In addition, coal was the third largest employer in the mining industry after precious metals and PGMs, directly employing 89 548 people, 20.48 percent of total mining industry employment of 437 288. These employees received

over R30.71 billion in wages and salaries, which constituted 20.27 percent of the mining industry's total wage income (R 151,53 billion).

For developing nations like South Africa, coal is a very affordable source of primary energy and abundantly available. However, it faces several challenges not least among them, the fact that as a major contributor to greenhouse gas (GHG) emissions, it is responsible for environmental degradation. Financial institutions and green energy advocates have increased the pressure to shift away from reliance on coal due to the impact of the rise in carbon emissions. At an international level, governments have developed and rectified legislation to cut down the use of coal in electricity generation. As a replacement, environmentally friendly technologies are subsidised with the hope that soon they will replace coal in the generation of electricity. In countries such as the US, Britain and Germany, coal power has declined quite significantly having been replaced by nuclear and renewables.

As we know, the South African government ratified the Paris Agreement, which entered into force on the 4th of November 2016, signalling that government is committed to addressing the challenge of climate change. The coal sector contributes approximately 80% towards the country's total GHG emissions with 50% stemming from electricity generation and liquid fuel production. However, South Africa remains committed to a lower carbon trajectory through the updated IRP 2019, an electricity infrastructure development plan, based on the least-cost electricity supply and demand balance. It takes into account security

of supply and the environment through the minimisation of negative emission and water use, as well as the conditional greenhouse gas mitigation undertaking government has made.

As a significant player in the country's economy and future contributor considering the value on the ground, government intends introducing interventions that will not sterilise the development of its coal resources. Instead, all new coal power projects would be based on high efficiency, low emission technologies and other cleaner coal technologies coupled with underground coal gasification, Fluidized Bed Combustion (FBC) and the development of Carbon Capture and Storage (CCS).

Other plans in place to tackle emissions and help the country achieve its commitment include, Carbon Tax, Carbon Budgeting system and compulsory Green House Gas reporting. The carbon tax was implemented on the 1st of June 2019. South Africa's National Treasury has included several transitional tax-free allowances in the Carbon Tax Bill. The Bill outlines a phased implementation of the tax, with the first phase introduced for implementation from the 1st of June 2019 to the 31st of December 2022. The second phase is scheduled to be implemented from 2023 to 2030 and, the phasing has been aligned with South Africa's nationally determined contribution commitments under the Paris Climate Agreement, signed in 2015. During the first phase, tax-free allowances will range from 60% to 95%, to provide affected companies with sufficient time and flexibility to transition to lower-carbon processes. Of note, is that the implementation and enforcement of stricter environmental

plans in South Africa will adversely affect the electricity sector; liquid fuels manufacturing; and basic iron and steel industry. Together these three accounts for more than 80% of domestic coal demand in terms of value and approximately 70% in volume.

Despite the country's significant coal resources there are binding constraints to the future growth of the coal industry. Unlocking the economic potential of coal is dependent on addressing constraints within the coal value chain, which will result in the stagnation and ultimately the shrinking of the coal industry.

Conclusion

In conclusion, coal will remain the mainstay of South Africa's energy basket for the next 10 to 20 years and a strategic sector as well as a job provider. The new Eskom build and the coal Independent Power Producers will sustain the coal industry. Global coal consumption is expected to continue an upward trend in the medium term, driven by demand from developing nations in Asia, Africa and South America. Growth in consumption will offset the ongoing decline in Europe and US. India, currently South Africa's biggest coal export market, has agreed to voluntarily reduce Green House Gas emissions intensity and thus far, this has not affected SA coal exports to that country, which have grown to almost half the total coal exports in revenue terms. Other areas for possible exports growth in Asia, in addition to India include countries such as, Pakistan, Malaysia, Taiwan, and Bangladesh. There is no scope for further growth in Europe, to be more precise countries in the European Union, because of

environmental laws. Strong international coal prices of around US$130/t have raised the attractiveness of exports, with most of South Africa's export coal going to India and Pakistan. China is also reopening opportunities for imports from South Africa, following its trade wrangling with Australia, previously an important coal source for them.

Domestically, the commodity will continue to play a role in developing economic energy mix, steel and cement industries but, its use will eventually decline as nations and businesses strive to reduce their environmental impact and abide by climate policies. We must as a sector map out clearly an engagement strategy on the national interests with regards coal. That will enable us to speak with many voices but one message. Countries at COP26 were asserting their national interests and therefore the pace of the global energy transition discourse is determined solely by what works in the advanced economies. Nothing prevents us from asserting our own trajectory on the energy transition as outlined in the IRP 2019. Germany's threats on Nord 1 and Nord 2 pipeline from Russia as a consequence of the Russia versus NATO /Ukraine standoff may mean higher demand for coal. Coal remains an important commodity as highlighted by the massive reserves. It is upon the coal industry to help map out its future. A just energy transition must out of necessity speak to the national development interests of our massive endowment with coal, current status of baseload generation, sizeable contribution to GDP, large contingent of employees and other relevant economic factors such as SLP projects. Furtherance of the COP26 agenda

cannot afford to ignore these national interests altogether but, should be integrated into plans serving our national development interests as it is with all other States bargaining the global trajectory of climate change. Today is an occasion to say to the captains of industry this battle is yours to fight, and to further say, your individual business interests both in the upstream and downstream, are tied with the collective of our national interests. You should therefore not be shy to fight for South Africa's national interests on coal mining and coal power stations as long as you also demonstrate commitment to moving from high carbon to low carbon emission including net zero emission projects.

I thank you.