

# Palabora Copper (Pty) Limited

## Palabora Copper (Pty) Limited

Palabora Copper's CEO says the similarity between mining in South Africa and China makes for harmonious labour and social relations, although there are a few unique challenges

**F**ollowing recent labour unrest, it is only through continued dialogue with all stakeholders that South Africa's mining industry will once again become robust and buoyant.

This is the view of Jinghua Han, recently appointed Executive Director and Chief Executive Officer of Palabora Copper.

His new position has meant Han has had to adapt rapidly to not only a new way of life in a foreign country, but also to South Africa's set of unique mining challenges.

"I've had to adapt to a completely new social and working culture," he says. "My entire childhood has been in China, and the various parts of the world I've only been through business travelling, so you can imagine the cultural adaptation needed. However, through my colleagues at Palabora Copper, as well as meeting with various other locally based industry players and senior political and government officials, the learning has been invaluable. The local people in Phalaborwa have also been exceptionally welcoming".

### A priceless resource

Han says during his tenure at Hebei Iron and Steel Co (HBIS), now Palabora Copper's major shareholder, he had the opportunity to be involved in the company's expansion to the African continent through acquisitions, particularly in Palabora Copper. Before taking the helm as Palabora Copper CEO, he served as a non-executive director of Palabora Mining Company Ltd (PMC) and Palabora Copper.

"That provided me with a great opportunity to have an inside understanding of the financials, the operations, customers and most importantly, its priceless resource, the people, he says. After the finalization of the divestment by Rio Tinto and Anglo American from PMC in August 2013, I was appointed to head the company to its new future. Asked if there are significant differences between the Chinese approach to mining and the practices adopted at Palabora, Han says: "In China, like in South Africa, people have cultures that enact themselves when faced with different environments. The same way in which South African mining businesses are driving safer production is similar to (what is taking place in) China".

He says as CEO he has realised that the management style and decision-making processes involved are fairly the same as those he was familiar with in China. "Had Palabora Copper been located in China, I think things would run fairly much the same as it is here. What's important is to take the advantage of the available resources to fully optimize the business by tapping into the experience of those with the knowhow".



*Jinghua Han, Executive Director and Chief Executive Officer*

### Deeply rooted values

He is sensitive to the importance of good labour relations and says at Palabora Copper, "our values are deeply rooted in our continued solid relations with the labour movement, our employees and the communities from which our business exists. Over the years, PMC, through its social development arm, the Palabora Foundation, we have rolled out a significant number of projects to develop our communities since 1986. These initiatives range from health and social welfare to infrastructure development around the communities.

"To date, 26 percent of Palabora Copper is owned between employees, the community and a BEE consortium and remaining 74 percent is held by PMC. We continue to implement various initiatives to ensure that local

businesses benefit from our company through supplier development, preferential procurement and enterprise development".

Han is equally passionate on the subject of enterprise development. "In South Africa", he says, "the living standard between the haves and the have-nots differs drastically. It's therefore essential for businesses to look beyond the economics of profit by ensuring that the solutions to some of the socio-economic problems are not left to government alone. We as businesses play a pivotal role towards the eradication of poverty and other social ills. I am therefore quite content with the role that Palabora Copper continues to play in the community and the impact it has to our people".

When it comes to the state of the mining industry in South Africa, generally, he has some pretty forthright views, too. South Africa, he says, is renowned for its abundance of mineral resources, said to be about 50% of the global resource in total.

During the 2014 State of the Nation address, President Jacob Zuma indicated that mining is the biggest earner of foreign exchange in our country. It also contributes about 20 billion rand directly to the tax revenue and employs over 500,000 people.

With that in mind one can immediately realise the importance of a stable and vibrant mining environment. Of course another challenge, as is always the case when resources are depleted on the surface, is that the costs of deep underground mining needs to be carefully managed. As in many of South Africa's old mine houses, the ageing equipment is also a huge challenge requiring capital injection to address not so favorable economic conditions," says Han.

As for Palabora Copper, the Lift II project, currently undergoing a feasibility study is progressing quite well, with the contractor drilling about 11 meters a day.

Earmarked for completion in May 2014, approximately R707 million is being invested in the feasibility study and supporting engineering infrastructure (early works) for this project that has the potential to extend our life of mine 2033. The amount, is over and above the R1.4 billion that has been spent to date on the development of the twin decline and early works.

### Strong bilateral relations

Concerning China-South Africa mining relations, he says the multilateral relations in the BRICS countries have never been as important as they are now, "especially at a time when we see economies in Europe and Americas tumbling. We're very excited that when HBIS ventured into South Africa, we found strong and solid bilateral relations between the

two governments already existed - making it somewhat possible to expand our business. One can hope that the increasing corporation certainly drives more job creation and creates a manufacturing boom that sees secondary industry flourishing".

Turning to Palabora's commitment to conservation due to its proximity to the Kruger National Park, does the mining CEO believe he has a duty to champion conservation both here and abroad? If so, what strategies does he believe to be best with regard to conserving species such as the white rhino, currently being decimated because of the value of rhino horn?

"As a company," says Han, "we believe that we are not only a mine - but a wildlife sanctuary too. (We place) strong value in our continued harmonious co-existence with nature. Our goal regarding biodiversity is to have a net positive impact on biodiversity and ensure sustainable development outcomes through the integration of conservation considerations with social decision-making. Through our Safety, Health, Environmental & Quality (SHEQ) department, there is a continued collaboration for wildlife management with the Kruger National Park. South Africa and the world will certainly be incomplete without this much endangered species and we should all collaborate to ensure its maximum protection".

In addition, he adds, many of the species in the Kruger National Park, such as elephants, buffalos, wildebeest and others move freely on Palabora's property. "This makes our working environment one of the most unique available, and special to our people".

### Enthused leadership

On the question of production, Han says for every business to remain profitable there must be efficiency in production, effective financial and cost control systems, better governance and enthused leadership with vision.

"Over the past few years of this business, we've dropped the ball in terms of profit, revenue, production and the market share. Historically, Palabora Copper has always been known as South Africa's biggest producer of refined copper for local markets.

"We're certain that we are going in the right direction to regain our ground and emerge much stronger and meaner in this very competitive industry. All this has to be achieved in both the short and medium term. At the same time our focus on the Lift II project, with the potential to increase the life of the mine to 2033, requires capital investment in the short-term, as the feasibility study will conclude by May 2014. The projected spend to conclude the study and early works is around R707



*Keith Mathole - General Manager of Corporate Affairs & Company Secretary*

million. Lift II is the project that is essentially the life of Palabora Copper under its current mining rights”.

#### **Palabora and BEE**

Meanwhile, on the subject of Black Economic empowerment and sustainable community development, Palabora Copper’s Keith Mathole puts things in context:

“Palabora Copper is situated in the Ba-Phalaborwa area of Limpopo, operates a large block cave copper mine and smelter complex.

Phalaborwa is a small mining town in the Limpopo province and employment is predominantly the responsibility of the mines in and around the area,” he says.

“There is a great lack of other skills that fall outside the mining space; this has resulted in high unemployment of women and young people within and around the surrounding host communities of Makhushane, Maseke, Mashishimale, Selwane and Majeje as well as townships of Nemakgale and Lulekani.

“This hinders the full development of youth skills and reduces the youth’s opportunity to be contributing members of the economy.

Approximately 80% of the Ba-Phalaborwa GDP comes from the mining industry in the area”.

#### **And the solution?**

Turning to the solution to these challenges, Mathole says Broad-Based Black Economic Empowerment is a framework that has been developed to address some of the issues mentioned above.

“Through various elements of the BEE score card PC has embarked on vigorous BEE programmes including transformation in the Ownership of the business, Preferential Procurement from disadvantaged/local black suppliers, Enterprise Development and Socio-economic Development , PC has committed itself to provide the tools that can address the skills shortage in this area and increase the employability of previously disadvantaged young people”.

This will be achieved through the following means

- PC is a BEE empowered company with a 26% BEE shareholding broken down into employees’ scheme 10%, local community 10% and BEE consortium 6%
- PC has also developed a comprehensive supplier development programme where local black companies are provided opportunities in the mine. Not only that, PC has also placed a responsibility on its large suppliers to localize some of their operations i.e. empower local business through ED programmes and imparting critical skills to local SMME’s
- Local black SMME’s are also offered early payment options because we believe that poor sustainability of small local businesses mainly emanate from the lack of access to finance, which is a major limitation for potential entrepreneurs. Other challenges include limited business skills, education and training, lack of infrastructure, such as permanent business location, electricity, inability to receive support due to unregistered business status, and through business competition. All these factors lead to more than 80% of South African businesses failing in their first two years of existence

#### **Level 4 BEE contributor**

Palabora, says Mathole, has been actively involved in supporting the Phalaborwa community since the establishment of the Palabora Foundation in 1986.

This was further accelerated by the establishment of the BEE framework. Palabora is currently a level 4 BEE contributor with a 100% recognition level and is also compliant in terms of the Department of Mineral Resources mining charter.

He says the company has developed an Employee Ownership Scheme, where the employees own 10% of the company. Further to that, Palabora has a Workplace Skills Plan that focuses on priority skills training in the mining sector, including Engineering, Rock Drilling, Artisans training etc.

“Palabora is aware of the challenges affecting the Ba-Phalaborwa community and hence it has developed long and lasting relationships both with the local municipality and local chiefs to address pertinent issues affecting the community. These include lack of jobs and promotion and development of local black owned businesses,” says Mathole.

He says the company’s policy is “quiet unique, given that we are situated outside the main business hubs such as Gauteng, KZN and Cape Town in that the skills gap in this area is quiet big when compared to other places. Therefore it is important for us that we involve businesses from outside Phalaborwa to tackle these challenges”.

Palabora Copper (PC) Ltd has a Preferential Procurement (PP) policy in place to ensure compliance and proper governance on the company’s part as the mine, and that of its suppliers and partners.

The purpose of the Preferential Procurement or Supplier Development programme model is to encourage large suppliers used by PC to partner or create joint ventures with local entities, the focus being on transferring core skills and empowering local businesses through localization. ▲