

BER – IN THE MEDIA – 22 JUNE 2026

# First get the minerals out the ground before beneficiating them

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The latest iteration of the Department of Trade, Industry and Competition (DTIC)'s industrial policy, called the Industrial Development Strategy, proposes taxes on minerals to encourage domestic beneficiation. But beneficiation is, arguably, not the right strategy as the mining sector is struggling with a more basic problem: getting minerals out of the ground in the first place

Earlier this month, the Department of Trade, Industry and Competition (DTIC) released an updated Industrial Development Strategy. Bernard Swanepoel, the former CEO of Harmony Gold, was not amused.

“Guys”, he reportedly **said**, “let’s stop bullshitting each other. This is the destruction of our industry.”

Swanepoel was distressed by the frequent references to mining beneficiation, which is the undead zombie of mining policy. The DTIC strategy goes so far as to propose “the preferential allocation of mining rights and licences, with conditionalities for beneficiation”.

The strategy seems to be pulling in a different direction to that of the Department of Mineral and Petroleum Resources (DMPR), which is the lead policy department. DMPR director-general Jacob Mbele tried to clarify that the DTIC document was just “a DTIC proposal”, and that the only law that mattered was the Mineral and Petroleum Resources Act.

This is not strictly true: the DTIC has substantial legislative power over the mining industry through the various pieces of legislation under its control, including the Competition Act and the Broad-Based Black Economic Empowerment Act. It is not impossible to see the DTIC imposing its will through one of these, for instance, by imposing new beneficiation conditions on any mining transaction. With these two big policy departments going in different directions, it is not surprising that the sector is worried.

There are several reasons why beneficiation is problematic.

First, mining production has been stagnant over the past decade. **As outlined in a Bureau for Economic Research** note in February, we are simply not producing minerals that can be beneficiated. Over the past two decades, the value added by the mining sector declined by 11.5% in inflation-adjusted terms. This is despite an extraordinary rally in the prices of our biggest mining products.

The reason for this is a near collapse in exploration activity. It turns out that you have to first go looking for minerals before you can mine them.

South Africa sits on one of the world's most significant mineral endowments, with a theoretical value of between \$2.5 trillion and \$4.7 trillion. So, South Africa is richer than Elon Musk, we just haven't grabbed the opportunity. The country holds the world's largest reserves of platinum group metals and manganese, as well as the second largest deposits of chromium. But we are not exploring this. In 2024, our share of global exploration was under 1%, a pathetic R700 million, down from 5% two decades ago. And we haven't even mapped our endowment. Only 9%-14% of the country is geo-mapped at a sufficiently detailed scale.

Why has exploration collapsed? It turns out we don't have a proper system, known as a cadastre, to record who has mineral rights and who can explore. Without this system, there is no way anyone is going to finance exploration. Following a decade of complaints over the dysfunctional Samrad system, the DMPR (the then DMRE) initiated a process to procure a new system in August 2021. The process has been beset by numerous delays, with the latest update promising that the system would be fully functional by March 2027.

It seems the right approach is: first, unblock exploration, then unblock mining and only then start thinking about beneficiation. This is broadly the direction the Minerals Department is going (albeit very slowly). The DTIC is clearly not talking to them.

Even if we managed to sort out our many mining sector problems, and could revitalise it, there is a deep question about how we industrialise.

Swanepoel was further provoked by the new proposal to institute an export tax and quota for the chrome industry. The DTIC's grand idea is that if you slap an export tax on a whole range of minerals, then the industry will be forced to beneficiate them here.

That is naïve. Beneficiation is extraordinarily complex. It is not the sort of thing a country gets good at in a year or two.

By making it more expensive to export, an export tax is likely to stop mining from even happening. The Organisation for Economic Cooperation (OECD) keeps a database on all the export taxes implemented across the world. They find that the fastest-growing stated purpose is for revenue generation, not the pursuit of industrial policy goals.

In a separate **study**, the OECD carefully evaluates the impacts of export restrictions and finds that they reduce exports. A different **study** shows that in the long run, export taxes reduce the incentive to produce the underlying product.

Let's take chrome. The DTIC's rationale for the proposed export tax is to push more chrome into domestic chrome smelters. But with electricity prices skyrocketing, chrome

smelting has become uneconomical. It is also highly capital intensive so creates few jobs. So, this is arguably exactly the opposite of what our industrial strategy should be doing, which is to encourage labour-absorbing sectors. Instead, it will harm mining, where the jobs are.

Research by University of Cape Town academic economists Haroon Borat, François Steenkamp and others draws from international literature on industrial policy. They argue that right question is not "should we beneficiate our minerals?" but "what complex products can we make because we are already good at mining?"

They also apply this idea to other "frontier products" – new and exciting things that we are able to make because we are already good at making similar things.

In mining, the late David Kaplan, a former trade and industry chief economist and a celebrated industrial policy academic, argued over a decade ago that South Africa was getting naturally very good at making high-value, highly technical mining machinery because mining in this country is fiendishly complicated. In the past decade, however, the sector has crumpled with the collapse in exploration. So again, our inability to become a globally competitive high-end manufacturing is linked to our weak mining policy.

The 2024 DTIC strategy highlights this link as something worth pursuing. But it has fallen out of the 2026 strategy.

Another example of this link is mining finance and related business. Our banks have built extraordinary global businesses because they are good at mining finance - a skill our banks developed because we are good at mining.

The DTIC strategy has not abandoned high-end manufacturing entirely: it calls for "building industrial capacity through capital equipment". This is exactly the sort of high-value manufacturing we are good at because mining here is so hard.

The problem is that the strategy lists capital equipment as an input that "underpins" mining, rather than as a capability that grew out of mining in the first place. Get that causality backwards and you reach for export taxes – when what actually needs fixing is our lack of exploration.

The lesson is to build on what mining has taught us not to tax it into decline.

The 2026 strategy gets this right when it comes to agriculture. It talks about agro-processing as a value chain worth building on – food processing, livestock, grains, fresh produce, even hemp. And it is right to: agriculture is a genuine existing strength, and agro-processing is labour-absorbing, exactly the kind of jobs-rich activity an industrial strategy should be chasing.

This is what makes the mining approach so puzzling. With agriculture, the strategy adds value by building on a sector where there is a real, existing capability and plenty of jobs. With mining, it does the reverse – forcing into being a capital-intensive beneficiation industry that does not yet exist, and taxing the labour-intensive activity, mining itself, to prop up the capital-intensive one.

First get the minerals out of the ground. The beneficiation can come later.

*This article first appeared in News24 on June 22*

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