



PROGRAMME: MASTER OF BUSINESS ADMINISTRATION

MODULE: Strategic and Change Management

South32 CEO says time for action is now

Carin Smith | 08 February, 2016 20:19

With steel demand weakening, associated with China's structural slowdown, demand for manganese is unlikely to provide the support required to spark a price recovery, BHP Billiton's South32 CEO Graham Kerr said at the Mining Indaba on Monday.

South32 produces aluminium, energy coal and manganese. It is one of the largest producers of manganese ore.

South Africa holds about 80% of the world's known high-and-medium grade manganese ore mineralisation.

Manganese is required in steel and there is no substitute. It is considered non-recoverable during steel scrap recycling. China accounts for above half of the world's steel production and manganese consumption.

"The last thing South Africa and the manganese industry needs at the moment is increased export capacity. Rather, recovery will need to come from supply continuing to adjust to the current price environment," said Kerr.

"While the building of new port capacity and expanding exports formed a good plan in the past when demand projections were more optimistic, the market dynamics have changed."

He emphasised that South32 is taking action now "in order to be appropriately structured for the current environment".

South32 is a relatively new company - less than a year old. Last week the company announced \$1.7bn in asset writedowns.

It added that it would cut hundreds of jobs at a South African facility and slash costs and production as commodity prices dive. The company employs more than 13 000 people across its operations in South Africa and Mozambique.

"We have a fundamental belief, that if done sustainably, mining is good for the world," Kerr told delegates at the Mining Indaba.

"Our South African operations are fully committed to the requirements of broad-based black economic empowerment."

He said South32's main focus is on optimising its existing operations "by being brilliant at the basics".

Secondly, it wants to unlock the potential of its existing operations by making the most of the embedded options it has with its large resource endowment.

The third leg of its company strategy is to look at new opportunities, outside of its existing operations and to create competition for capital.

"We believe in a strong balance sheet. We are in a cyclical industry and as we can see today, many of our peers have underestimated the combination of financial and commodity leverage," said Kerr.

"And we will continue to take action that will help us to weather the current market challenges and emerge stronger when markets improve."

He emphasised that the challenge for the industry currently is excess supply.

"Excess supply is awash in most commodities and as painful as it is, economically and rationally it needs to leave the market to create a long term sustainable future," said Kerr.

He expects this challenging environment to persist for some time and market conditions likely to remain volatile.

"Macroeconomic conditions remain uncertain and there is no China stimulus or demand coming to prop up the sector. The supply side needs to respond," he said.

"Manganese is important to South Africa today and in the future, if the industry is managed well. The high steel and manganese demand growth, along with the high prices in the past, were not sustainable."

Source [Fin 24](#)

Accessed at: <http://www.fin24.com/Companies/Mining/south32-ceo-says-time-for-action-is-now-20160208> on 12 February 2016