

**A**SKED TO NAME A VILLAIN IN TODAY'S FIGHT against climate change, many would likely say coal. Brunswick research of opinion leaders in the US and UK found coal to be the energy source they were least likely to invest in and most likely to think the world should use less of. An unofficial goal of COP26 was to "consign coal to history."

Yet at that same COP, two issues added nuance to how that consignment should take place. The first was a global energy crisis that demonstrated not only the world's reliance on coal, but also how a mismanaged transition away from it could be much more costly and damaging than previously imagined.

The second was a growing focus on a "just transition." In the words of Mxolisi Mgojo, CEO of Exxaro, one of South Africa's largest Black-empowered resource companies, a just transition requires responding both to the "cries of the poor, and the cries of the Earth."

In one sense, responding to those two cries should be straightforward. The harshest effects of climate change are most likely to be felt by those with low incomes and low skills.

Yet the steps required to tackle climate change can disproportionately hurt those same disadvantaged groups. Billions still depend upon coal-generated power in their homes and businesses, while many local communities, as Mgojo knows firsthand, depend upon those mines for their livelihoods.

The company Mgojo leads, Exxaro, offers a model of how a company that on paper might sound like the enemy of the energy transition—it makes 90% of its revenue through coal—can help foster that transition in a way that helps bring communities along with it.

Exxaro's work is doubly notable given that it's taking place in South Africa, where the challenges of a just transition are particularly intense. The country remains riven by racial and economic inequality and faces steep unemployment—all of which the pandemic worsened. In the summer of 2021, civil unrest paralyzed the country's economy and saw more than 300 people killed—violence ostensibly sparked by politics, but whose deeper roots were socioeconomic.

Between 2015 and 2021, South Africa saw real GDP per capita decline, and today the carbon-intensive country sees rolling blackouts. So the very same step for which the world is calling—a swift move away from fossil fuels—might bring real hardship to South Africa's most disadvantaged.

On the energy front, Exxaro entered renewables



# The (un)Just

The CEO of **EXXARO**, one of South Africa's largest Black-empowered resource companies, discusses a journey to net zero that doesn't leave communities behind.



An aerial view of Kya Sands settlement in Johannesburg, South Africa—a country with inequality so stark it can be seen from the air.



more than a decade ago, making it among the first fossil fuel companies to do so. Today it owns and operates a company with wind farms that feed into South Africa's national grid. It recently informed shareholders that it intends for renewable energy to grow earnings before interest, tax, depreciation and amortization (EBIDTA) from 8% to 30% by 2030. Exxaro has also expanded into minerals and materials—like copper—crucial for the electric vehicles and energy grids upon which the energy transition will be built. The company's ambition is for coal to dilute from 92% of its EBITDA to 45% by 2030. The company has set a carbon-neutral target for 2050, and aligned its governance, risk management and strategic processes with TCFD recommendations.

On the societal side, more than 30% of Exxaro is Black-owned, and the company has in place an employee share ownership plan and community benefit scheme, both of which are evergreen. It is ranked among the top 30 in the FTSE/JSE Responsible Investment index and a leading performer among its peers on the FTSE Russell ESG Index.

Yet Exxaro is, as Mgojo shared with Brunswick Partners Itumeleng Mahabane and Christophe Guibeleuiet, "thinking bigger and longer term."

Along with former CEO Siphon Nkosi, Mgojo was one of the original Black investors who acquired a group of coal assets from Anglo American and then BHP Billiton's Ingwe in 2000, and helped grow the business to what it is today. CEO since 2016, Mgojo outlined how Exxaro is looking to build entirely new types of partnerships and projects to attract new kinds of investors as part of its "Just Transition impact strategy."

The goal is to rehabilitate the land around mines while the mines are still in use, and at the same time help local communities build an economy that supports itself—and its people—after the mines close. "How do you show that you leave an outcome that's going to be sustainable for them, one that doesn't rely on us being there?" Mgojo says. "Because one day our resources won't be there."

**You speak often—even at your latest capital markets day—about how Exxaro needs to address inequality. And not only to ensure the company's future growth but also to make a societal impact. Why add that last part?**

I think it starts at a personal level. I've got children and grandchildren. Their future is in my hands. The future of the next generations is in our hands.

And the people who are next door, so to speak, the people where we're operating—what becomes of

# TRANSITION

PHOTOGRAPH: MARTIN HARVEY/GETTY IMAGES

their future? We've seen what happens to the communities when you close mines. We go back five, 10, 15, 20 years later and see that what was once a thriving society has become destitute.

So when we talk about sustainability (enduring livelihoods), it's not just about our business, but about those communities. How do you create new economies that are going to start driving sustainable growth for broader society? How do you lay the foundations for them to thrive when the mines close? This is about ensuring that our actions today, with real intention, start answering those questions. We've seen the devastation when we don't answer them.

**I've heard you talk about the "duty of a just transition." Duty is a strong word.**

It is. But it's an obligation we have to take on. Do you have any grandchildren, Christophe?

**No, not yet. Though I have children.**

Well, I hope we get the chance to continue this discussion years later, and you can tell me what happens to you when, for the first time, you hold that grandchild in your hands. You have a different obligation about their future. Make no mistake. And so, for me, really, this is about that obligation to do what is right for the next generations.

**How did you manage to convince your board about these types of commitments?**

It's not an easy one. And it's a work in progress, particularly given the scale of what we're trying to do. Because it's not something you can do alone. This is a collective effort. There's no single company that can take on this mammoth task of addressing inequality and poverty—in any country, but particularly South Africa. The pandemic has taught us this in its own way: No single company, no single sector, we could even go as far as saying no single country, can do it on their own. So, by and large, it's how do we work with others. How do we collaborate with others? How do we create a common vision for the country that we can all rally around? I know it sounds very utopian, but it's possible.

**A theme after COP26 is that wealthy countries' approach to climate change is putting the development of low- and middle-income countries at risk—an "unjust transition." What are the risks and the opportunities for Exxaro?**

I think for me, the biggest risk is not being able to achieve that which I think we need to do. And I say this because Exxaro cannot do this thing alone. We

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need a collective. Let's take the mining industry, if I may start there. Part of the model that we were looking at around this just transition was about land use.

Mining companies own a lot of land. And by and large, this land is not being fully used to benefit the local communities. But to be able to create projects to change that dynamic, you have to be innovative and able to raise fairly unconventional funds. In other words, we need to go to impact investors who are thinking about their models to fund this just transition. It's new for all of us, and it's going to require all of us to work this thing out together.

Because nobody has done it to the extent that we are all talking about right now. And as we've started coming up with a model around this, it's become clear that, even for these funds, it's not just about purely commercial terms. It has to be packaged in various forms with grant funding, with concessionary funding—it requires a different model, a different mindset, a different way of doing things. This all has come together to enable this.

Because these funds are looking for scale. They're not looking for \$1 million projects. They're looking for projects that allow them to show significant societal impact. So, we're going to have to learn how to work together to create big, attractive projects that deliver social, environmental and economic return.

Another challenge is that a lot of boards cannot understand the scale and magnitude with which we are to think about this. These are not normal projects; we're not talking about IRRs as we understand them today. It will certainly require some financial return so that the project is sustainable, but by and large, it's going to require that one thinks of it as a social license to operate at scale, which enables you to have a business, a sustainable business, and that in itself enables your expected return.

**For communities who have relied on Exxaro for generations—what do you tell them about the future, when they see a mine may not survive?**

There are two parts to this. The first is that they understand the mining industry; they've seen mines open and close. They've seen ghost towns. You don't have to tell them that this mine is going to come to an end and life may be more miserable, because they see it around them. Today's generation, their fathers were there. Their fathers are no longer working because those mines closed. They understand that.

What becomes important is realizing that you cannot take this journey without communities being part of the conversation, without having an understanding of what makes sense for them.



Let me give you an example. We recently went back to a community where we closed a mine about 20 years earlier.

In South Africa, when you close a mine, you maintain it until you get a closure certificate. So you don't actually close it for about 30 years, during which period you experience water decanting. There's a lot of activities. But around those activities, you have communities who occupied that land productively before you were there.

When mines close, we try to rehabilitate how the land looks—make it look appealing, like it hasn't been disturbed which, of course, we can't do completely. But we never thought about how we look at this land in a way that can create new economies. And who's better placed to understand that than the communities that were there before you came? So you start having conversations about why the land has not been productive for them.

It's around understanding that even the rehabilitation plants that we put in there, they're not indigenous plants. They are foreign and usurping the water tables. And you think you're doing a good job because you're planting trees and yet you're actually destroying parts of their livelihood.

**“You cannot take this journey without communities being part of the conversation.”**

So, you have to have a conversation with them first to say, “We are thinking differently about how we want to move forward. And we want you to help us understand what it is about this land that once worked for you.”

It's asking, “How can we get that land back to that state—and do so with projects that can be economic, that can empower the communities, create new opportunities for them?” So that they are part of that vision you have, part of the conversation about how you can get there. You don't come from the top and say, “Well, here we are, mighty Exxaro. We know what's good for you.”

**It feels like such an important point that I want to make sure I'm hearing correctly. As you approach these two issues of climate change and the just transition, one challenge for extractive industries as a whole—and for you as a company—is to find ways to restore the land, so communities have a different way of living there sustainably?**

Precisely. And actually, it has been part of the original mine plan when you start developing your project to open a mine. You should already be thinking about it.



**“These are not normal projects; we're not talking about IRRs as we understand them today,” Mgojo says of his company's efforts. “It will certainly require some financial return so that the project is sustainable, but by and large, it's going to require that one thinks of it as a social license to operate at scale.”**

Let's take a mine that has a 20-, 30-year life. You don't mine all of it in any one year. So it's about how you can utilize the areas that would be mined later, so they can actually start economically benefiting the community now.

In the past, we used to mine and put stuff into big stockpiles and then come back and try to rehabilitate the land later. Now, it's about doing concurrent rehabilitation as you are mining. But with the view of saying: "We're not going to close this mine; we're going to repurpose this mine into a different economy that has to coexist as we rehabilitate land."

It's got to be ongoing. The whole idea is that by the time I draw that last resource, there's a thriving economy that's happening that is not dependent on me.

Right now, all the opportunities we create for communities are for the benefit of them being still dependent on us. They want the contracts from us. Companies help fund education, do all these charitable things, right? And then one day, the tap's turned off. Then what?

But it can be a very different picture. The mine becomes a catalyst of other activities, other initiatives, that are really not dependent on that mine being there in the future.

I've got projects where I can go to impact investors now and they can collaborate and work together to create this economy, a new economy, on that same land—the mine there is just a catalyst. The day that the mine no longer exists, the economy has already been created. Totally different mindset.

**Inequality is on a lot of CEOs' radars today, but it's such a pronounced issue in South Africa. How are you thinking about it?**

Business has to play a role. We saw it with COVID-19. As the virus spread, businesses in South Africa came together and created the Solidarity Fund. Companies made resources available to help support the government fight this pandemic. They also played a critical role in the whole vaccination program. All the resources, all the skills, were thrown at it. And by and large, we threw the same resources to help craft what we hope will be the new post-COVID-19 economic recovery plan.

The positive side of this pandemic has been that I've never seen businesses more willing to work with each other to tackle challenges. I think business has awakened to the role it can play going into the future, not waiting for the government to act, but rather being proactive and coming to government with ideas and solutions.

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**ITUMELENG MAHABANE** and **CHRISTOPHE GUIBELEGUIET** are both Partners. Itumeleng is based in Johannesburg, Christophe in London.

**South Africa knows it almost has no choice but to embark on a carbon transition. But it is also determined that there can be no transition if it is not a just transition. What does the journey for South Africa look like?**

A very complex one. Yes, we are worried about climate change. But we are worried about poverty on top of that, inequality, unemployment. We have a slightly more complicated challenge—a health crisis, an education crisis.

We saw in June and July [2021] what an unjust society can create. We saw what happens if we don't collectively start thinking about how we can contribute positively to try to make sure that something like that never happens again.

It brought everything almost to a standstill. It didn't matter whether you were in logistics, banking ... you couldn't put petrol into your car, the shops were empty. That was a big awakening around the just transition. And we have to make sure that we don't forget what happened.

Not too long ago, South Africa had a huge amount of goodwill globally. People wanted to help. And to a large extent we squandered it. I don't want to pretend and create a very rosy picture when things are not so rosy.

A lot of things have got to change. There has to be reform. We have to tackle corruption.

But with the low-carbon transition, it is going to take time. I like to remind people that Germany announced that their last coal-fired power station would only be decommissioned in 2038. And they started this transition in the early 2000s.

Is that a "fast" transition? Today, whether you're in Norway or the UK or US, there are permits that are being sought for drilling oil and gas.

Are we all talking about the same fast transition? It seems a different one than what's being expected of us here down in the south, when we're told that if we don't start moving fast, we face new carbon taxes. Where is the justness in that?

We cannot take away the fact that South Africa is a carbon-intensive economy that has made a commitment. We're not denying the commitment to transition. We are just saying to wealthy countries, "You've got to help us; you have to honor your commitments to fund this transition, to give us the time we need."

Because I can't go tomorrow and just shut down a mine. Imagine what happens. Imagine, in an economy that's growing at less than 2%—we don't have to imagine, actually.

We glimpsed what would happen in July. ♦