

BRIEFING ON FERROCHROME AND CEMENT INDUSTRY

PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY
28 OCTOBER 2020



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DELEGATION

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ABBREVIATIONS

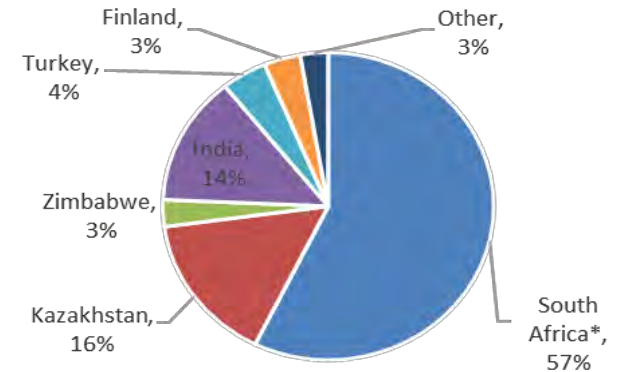
- DMRE – Department of Mineral Resources and Energy
- DPE – Department of Public Enterprises
- FeCr – Ferrochrome
- ITAC – International Trade Administration Commission
- LOA – Letter of Authority
- Mtpa – million tons per annum
- NRCS – National Regulator for Compulsory Specifications
- NT- National Treasury
- SABS – South African Bureau of Standards
- SARS – South African Revenue Services
- UG2 – Upper Group 2 Reef



1. SA CHROME INDUSTRY

- 75% of the world's known chrome ore reserves is in South Africa, followed by Kazakhstan
- 57% of global chrome currently produced in South Africa
- About 12.5 mtons/annum exported (>70% to China)
- Chrome ore is sourced from the high grade chromium rich deposits.
- Integrated producers utilise the ore to make ferrochrome while non-integrated export unbeneficiated chrome ore
- Platinum miners produce chrome as a by-product from UG2 ore resulting in additional sources of chrome ore
- Chrome exports to China, impacting the SA's ferrochrome sector's performance and competitiveness

Share of global chrome production



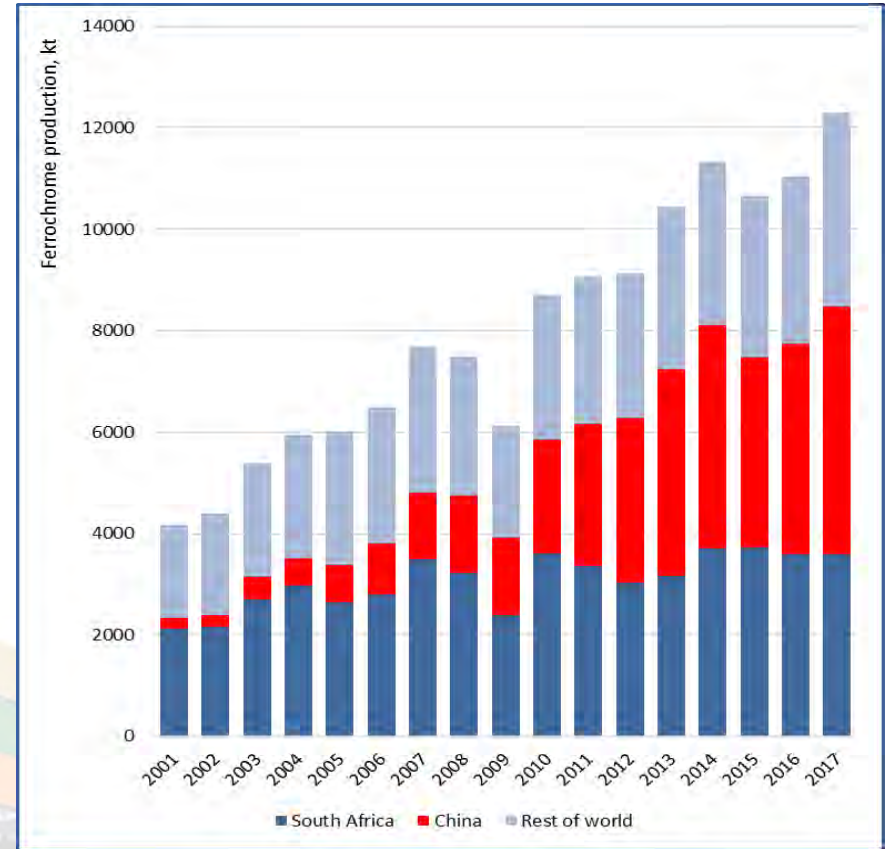
Chrome production in SA

Category	Contribution to Chrome Ore Production in SA
Integrated producers	48%
Non-integrated producers	22%
UG2 producers	30%

2. FERROCHROME INDUSTRY

South Africa's position in ferrochrome is being eroded

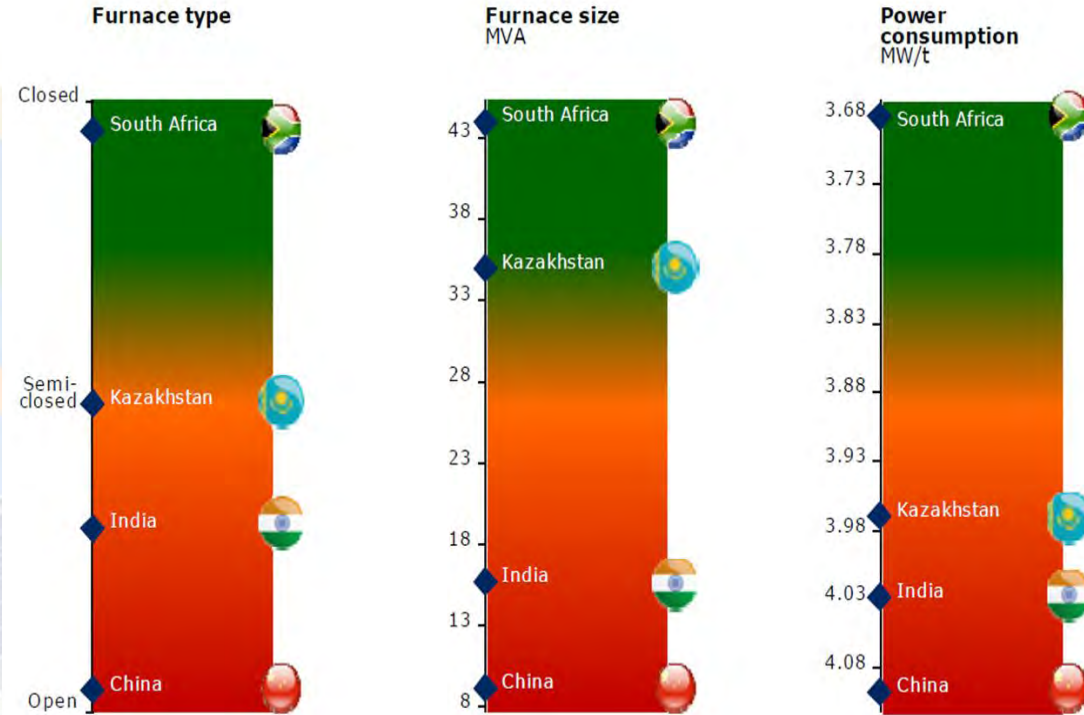
- SA produces 3.6 mtons and China 5-6 mtons ferrochrome/annum. Current global production-12.8 mtons/annum
- SA's share of global ferrochrome market is about 27% down from 39% in 2009
- SA is the largest supplier of chrome to Chinese ferrochrome firms
- China went from a marginal producer in 2002, currently accounts for more than 40% market share
- All Chinese ferrochrome is used in their domestic stainless steel market



3. INDUSTRY CHALLENGES

- **SA has advantages that can be leveraged**
 - World class technology
 - Access to largest resources of local chrome ore
 - World class stainless steel producer
- **SA lost ferrochrome market share as a result of lower ferrochrome prices, increased production and competition from China as well as increasing domestic energy costs, leading to challenges in the South African market**
- **Illegal mining activity and companies pre-buying the output of junior mines**
- **Due to the strategic importance** (value-add, jobs and capability), there is a need to support the sustainable growth of the chrome value chain

4. TECHNOLOGY AND ENERGY CONSUMPTION



- Generally SA has a technology advantage when it comes to chrome smelting
- Additional technology opportunities – reduce energy consumption (pre-heating), use direct current furnace and processing of fines

5. PROPOSED INTERVENTIONS

Establish inter-departmental task team (DTIC, DMRE, NT and DPE) to consider measures to support the industry across the value chain

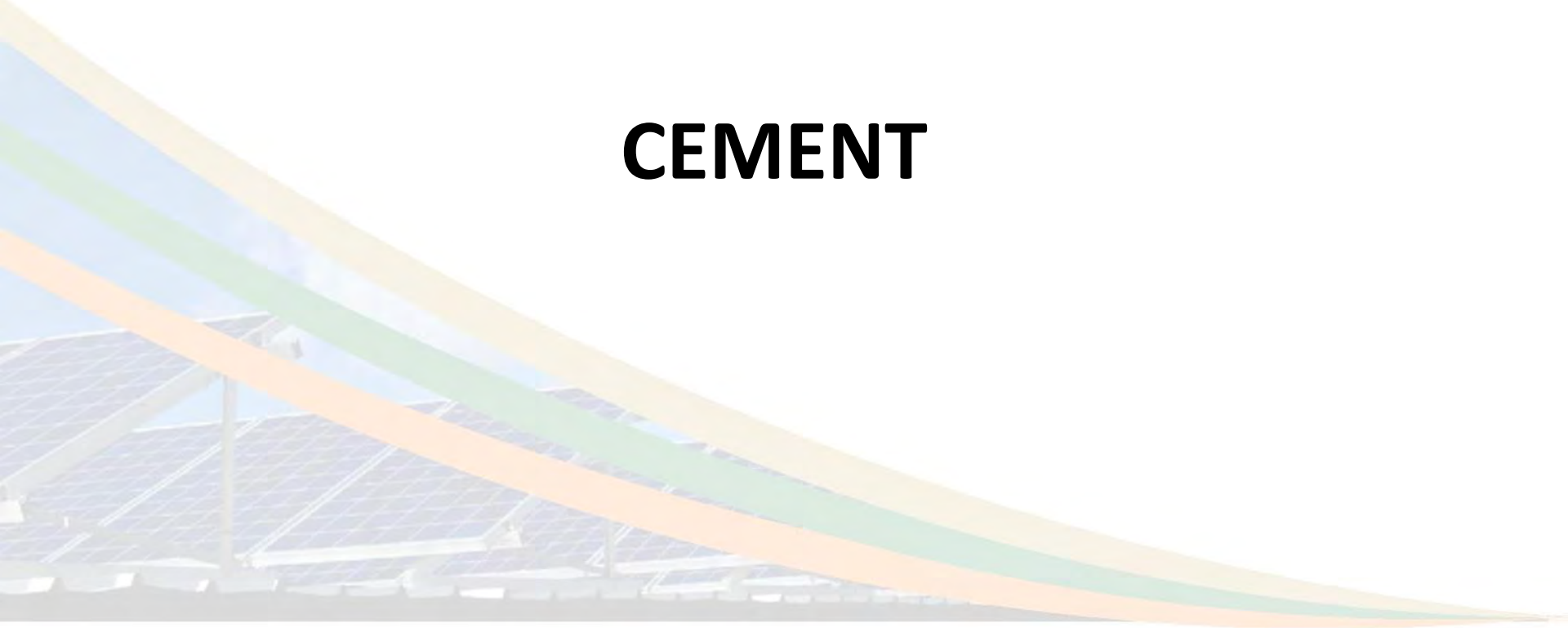
- Collaboration between chrome and ferrochrome producers for short-term solutions in the interest of all partners
- Security of competitively price electricity through the short and long term electricity pricing framework for energy intensive users
- Address high costs of logistics and increase transportation of chrome and ferrochrome by rail
- A form of chrome export tax that will balance the viability of the chrome and ferrochrome industries
- A commitment by the ferrochrome industry to process volumes of chrome should manufacturers reduce imports of chrome as a consequence of an export tax
- Combat illegal mining
- Adoption of technologies to improve efficiencies and reduce costs

6. PROPOSED INDUSTRY COMMITMENTS

Industry Commitments and Growth Opportunities

- Preserve upstream and downstream jobs and beneficiation/smelting capacity
- Integrated producers enter into purchase contracts for chrome ore requirements from non-integrated producers
- Potential to restart idle capacity and encourage investment into new mines and smelters to increase production from current 3.6 mtons/annum
 - Short Term: 4 mtons (Existing plants that are operating could ramp up to full production)
 - Medium Term: 5.5 mtons (If all existing ferrochrome plants in SA restarted)
 - Long Term: 10 mtons (Existing furnaces for other commodities can convert to ferrochrome and/or new plants can be constructed)
- Ferro-chrome pricing benefit passed down to potentially unlocking investment in downstream value chain

CEMENT



7. INDUSTRY STATUS

- South Africa's has 20.5 mtons/ annum cement installed capacity however in 2019, total production was 14 mtons, 68% capacity utilisation
- 1,15 mtons of cement production was displaced by imports in 2019 - 8% of local demand
- SA currently exports 1.2 mtons of cement – mainly to the regional market,
- Cement sector employs approximately 7806 people
- Key globally competitive players
- Cement industry is highly linked to the construction, logistics and capital equipment sectors
- Impacted by contraction in construction sector and Covid-19
- South Africa infrastructure program presents an opportunity where local inputs could reduce building and construction costs, life cycle costs, improve quality and minimise the lead time for infrastructure delivery, impacting positively on the entire infrastructure programs.



8. INDUSTRY CHALLENGES

INDUSTRY DEVELOPMENT

- Imports
- Declining construction activity
- Carbon Tax
- Clinker imports (no duties) (importing clinker reducers upstream activities)
- Decrease in employment from 16000 in 2008 to 8006 in 2020.
- COVID 19 Pandemic

REGULATORY

- **NRCS SPECIFICATIONS**
 - (1) Testing capacity and turnaround
 - (2) LOA and compliance
 - (3) Metrology
 - (4) Consultation

QUALITY

- **SABS**
 - (1) Certification
 - (2) Blenders quality



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9. EXISTING SECTOR SUPPORT

QUALITY AND COMPULSORY SPECIFICATIONS

- Cement Project
- SARS risk engine
- Non-compliant product detention and sanctions
- Testing

TRADE REMEDY

- Anti-dumping duty against Pakistan- due for review
- Safeguard investigation in progress

INDUSTRY OPPORTUNITIES

- Infrastructure program.
- Prioritised cement-intensive industries energy, water and transport
- Localisation

10. NRCS INTERVENTIONS

- Cement highlighted as a high risk item on the SARS risk engine
- Customer concerns investigated
- Rigorous Sampling for testing
- Directives issued for non-compliances, criminal cases and LOA's withdrawn
- Media release conducted including on rural areas
- Confiscation and detention of non-compliant cement in the past year

Source	Bags of cement	Rand Value over
Imports	265 400	19 000 000
Local manufacturers	5 034	R300 000
Retailer/Distributor	2000	R130 000

11. KEY INTERVENTIONS IN THE SECTOR

Driving demand

- Infrastructure projects
- Designation of cement in progress
- Localisation

Legislation

- BBBEE
- Carbon tax
- Mining Charter

Quality control

- SABS- Regular inspection of manufacturers & Blenders
- SABS- certify the quality of cement in the local market
- NRCS- implement LOA, compliance testing and investigations

Imports

- ITAC- investigating safeguard duty
- SARS- reference pricing system
- Risk engine

12. CONCLUDING REMARKS

- ❑ The ferrochrome and cement industry interventions contribute to the key economic recovery actions in terms of strategic localisation, reindustrialisation and export promotion including revitalising mining and manufacturing
- ❑ **The dtic** supports the development and implementation of a set of interventions to support the chrome and ferro-alloys value chain to promote beneficiation and value adding industries
- ❑ Construction material localisation has been identified as a key area to strengthen and grow domestic manufacturing leveraging public infrastructure procurement and designation utilising domestic capacity and capability
- ❑ Additional construction material localisation and designation interventions are underway



THANK YOU



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