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Correcting chrome ore export tax inaccuracies

ChromeSA has noted a number of egregious misconceptions, omissions and inaccuracies contained in media reports regarding a proposed chrome ore export tax and its impacts on the industry. ChromeSA would like to take this opportunity to clarify and correct some of these.

ChromeSA considers the complete absence of consideration given to the destructive impact which such a tax would have on South Africa's primary and UG2 chrome ore producers to be a gross omission, given that they sell the bulk of their production for export. It is clear that insufficient thought has been given to the financial consequences of such a tax – and its inevitable impacts on direct employment, on associated industries such as transport and logistics, on the indirect jobs that will be affected, and on communities.

Of further concern to ChromeSA is that there is no clear benefit to the ferrochrome producers themselves from the proposed tax. Any suggested benefits would at best be short-term and would be rapidly eroded by the significant negative impact South Africa's ever-increasing electricity tariffs continue to have on local beneficiation.

ChromeSA is also extremely concerned by the apparent failure by those working on the proposed tax to engage meaningfully on this issue, seemingly oblivious of the consequences of a tax on primary and UG2 chrome ore producers, their employees and their communities. ChromeSA is calling for a comprehensive and transparent engagement process with all affected parties before the proposal is developed any further.

It is the view of ChromeSA that the proposed tax is entirely speculative as regards the outcomes its supporters expect it to achieve, and that several significant **incorrect** assumptions have been made by the proponents of the tax. These include -

That SA chrome ore producers have such extreme market dominance that they are able to pass on the export tax to Chinese ferrochrome producers without losing sales in the export market (thus, an assumption of no harm to SA chrome ore producers). ChromeSA takes issue with this assumption based on the following argument:

- International chrome ore producers have excess capacity which can replace SA chrome ore in sufficient volumes to cause harm to SA chrome ore producers. China's buying power remains extremely strong and China would, in all likelihood, resist attempts to simply pass on the tax to Chinese producers. It should be emphasised that any export volumes or revenues lost by the non-integrated chrome ore producers are unlikely to be recovered through increased domestic sales given that the ferrochrome producers in South Africa have substantial excess chrome ore supply over and above their internal use requirements. Significantly the SA ferrochrome sector's chrome ore input costs are around 50% lower than those paid by the Chinese producers.

That the tax on SA chrome ore will undermine the competitiveness of the Chinese ferrochrome sector to the advantage SA ferrochrome producers. ChromeSA would like to correct this view:

- Apart from SA chrome ore producers not being in a position to simply pass on the tax to Chinese ferrochrome producers, China also has various credible responses available to it in order to protect its ferrochrome sector. For example, there is ample scope for China to increase support for its domestic ferrochrome/stainless steel industries to counteract any impact of the tax (such as increased subsidies, aggressive industrial financing and other incentive programmes). There is also clear potential for the implementation by China of a retaliatory trade policy, such as import duties on SA ferrochrome. Furthermore, the stainless steel and ferrochrome sectors in China have a close relationship and could absorb the effects of the tax. Any of these likely responses by China would render the proposed tax ineffective to benefit SA ferrochrome producers.

That the export tax will lead to a dramatic increase in revenue for SA ferrochrome producers, improving the sustainability of operations. ChromeSA asserts that**:**

- The proposed tax will not necessarily undermine the competitiveness of the Chinese ferrochrome sector relative to SA producers. But even so, any benefit to SA ferrochrome sector would likely be highly diluted by several additional factors. If the costs of Chinese ferrochrome producers were to increase because of a tax, it does not necessarily mean that Chinese stainless producers will accept a higher price or greater volumes from South African producers – in fact such increases would provide an opportunity for other ferrochrome producers around the world, who have their own chrome ore supplies, to increase their market share with Chinese stainless steel producers, and minimise any price rises for SA ferrochrome producers.
- Additionally, only around 50% of SA ferrochrome exports – those to China and Indonesia – would potentially benefit from the tax. Sales of SA ferrochrome into all other international markets compete primarily against international ferrochrome producers who have their own sources of chrome ore and therefore would be largely unaffected by the tax. Lastly, rising South African electricity prices, the true cause of the ferrochrome producers' lack of competitiveness, will erode any potential benefit gained within a few years. South Africa's integrated ferrochrome producers themselves export significant volumes of chrome ore, so any export tax would have a material negative impact on them as well.

ChromeSA also believes that the assumptions by government and others about the availability and cost of electricity – which is seen as supporting local beneficiation with a hypothetical South African ferrochrome production boom, increasing production almost threefold to 10 million tons – are deeply flawed. Simply put, Eskom in its current state is in no way equipped to support a ferrochrome industry performing in the manner anticipated by the government.

So, while the benefits of the proposed tax are entirely speculative, the cost that would be imposed on non-integrated chrome ore producers is certain, direct and will have significant negative output and employment impacts. This at a time when South Africa is attempting to stimulate economic growth, recover from COVID-19 and encourage investment in mining activities. Indeed, a core tenet of the country's recovery plan, as presented by President Ramaphosa, are actions to increase the competitiveness of exports. The proposed tax, by design, does exactly the opposite.

ChromeSA and its constituent companies are open to all necessary engagements, and to assisting in finding a sector-wide solution, but not at the expense of the future of our employees, communities and investments. We are committed to strongly protecting those constituencies.

NOTE TO EDITORS

ChromeSA (Anglo American Platinum, Assore, Bauba Resources, Implats, Northam Platinum, Sail, Sibanye-Stillwater, Siyanda Resources and Tharisa) is an independent Chrome Ore Producers Group representing primary and UG2 chrome ore producers.

For more information please contact:

Marika Muller
Tel: +27 (0)11 880 3924 or Mobile: +27 (0)72 635 9262
Email: **marika@rasc.co.za**