TRADE & INDUSTRIAL POLICY STRATEGIES (TIPS) NPC
PO BOX 11214 | HATFIELD | 0028 | PRETORIA | SOUTH AFRICA
234 LANGE ST | NIEUW MUCKLENEUK | 0181
TEL +27 (0)12 433 9340 | FAX +27 (0)12 433 9344
WWW.TIPS.ORG.ZA
VAT NO 4710195282 | REG NO 2001/012247/08 | NPC NO 40621

**Government moves to strengthen its industrial capacity by boosting the ferrochrome industry**

Government's decision to introduce a chrome export tax could provide the economy with a much needed boost by stimulating the domestic ferrochrome industry as well as providing the opportunity to support the development of downstream industries.

The author of the recently released TIPS Policy Brief entitled: **A Chrome Export Tax: An important intervention to support Industrial Development in South Africa** argues that this move by government was critical in the context of a post-COVID-19 recovery plan where industrial development is a priority and requires the use of a multiplicity of measures by the state to strengthen its industrial capacity. Policy brief author, TIPS director Saul Levin explains that introduction of a chrome export tax announced by Cabinet on 21 October 2020 will bring immediate benefits to the ferrochrome industry and will mean that South Africa "is able to take advantage of its natural resources by giving South African ferrochrome producers a price advantage over Chinese firms. Further, it will see the benefits of mining being utilised in support of beneficiation and potentially further downstream."

The policy brief discusses the benefits of a chrome export tax, why it makes sense for South Africa as a measure to support the ferrochrome industry – in view of the fact that South Africa controls the majority of the global supply of chrome - but cautions that "this measure alone is not sufficient to grow the stainless steel and downstream industry – an additional set of industrial policy measures are required." In terms of this latter point, the export tax should be part and parcel of a broader approach to strengthen South Africa's industrial capacity and contribute to structurally shift the economy away from its historical path of mining dependency and into increasing its capacity in value added products.

Levin adds further that "key to ensuring that the downstream industry is able to grow is that the benefit provided by the export tax to ferrochrome producers must see them commit to value chain development. They should pass on the pricing benefit to downstream domestic producers through a developmental price, which should be a discount to the export parity price."

This is critical as over the years the overwhelming majority of chrome ore mined (with SA having the most effective chrome ore mining operations) has been exported in its raw form rather than being beneficiated into ferrochrome domestically. This ore is used to produce ferrochrome, which in turn is a key ingredient in making stainless steel which has a wide range of uses across industries as inputs, and also for consumer goods such as cutlery, kitchen sinks and home appliances as well as into the automobile industry.

So, in effect, the export tax would see relative prices of chrome ore declining for the domestic ferrochrome industry, and would consequently encourage better capacity utilisation of existing ferrochrome assets which have been running below capacity or shuttered. Ferrochrome firms would benefit from foreign competitors (particularly in China) paying higher ore costs. Local ferrochrome firms that took advantage of this price advantage should over time beneficiate greater quantities of locally mined chrome ore.

The export tax also offers the potential for future new investment. New opportunities exist to attract international players including from China to produce domestically to access the commodity at pre-export tax prices; this will require investment facilitation and support to ferrochrome firms wishing to relocate to South Africa. The tax would also generate significant revenues for the state, and depending on the rate of the tax could be upwards of R5 billion per year - much needed at present.

Levin points out that over and above the export tax on chrome ore, measures that would unlock the growth of the chrome value chain would include those related to the developmental pricing for downstream industry; more efficient and appropriately priced electricity; industrial finance, to support the new industrial opportunities downstream; and additional government support measures such as the black industrialist programme, SEZ's, and local procurement.

As highlighted above and as the policy brief points out, the elephant in the room is the issue of Eskom and rising energy costs which have significantly eroded the core competitiveness of the South African ferrochrome industry. Hence, the high energy costs and the short term availability of electricity remain the largest barrier to new capacity investment. Levin concludes that "it is therefore important to note the Cabinet decision to implement the export tax which is coupled with measures on investment in energy efficiency and co-generation."

Issued by TIPS: For more information contact Saul Levin on 083-3260848 or Saul@tips.org.za
The full policy brief will be loaded onto the TIPS website later today: https://www.tips.org.za