

Chrome ore miners issue dire warnings over planned tariff

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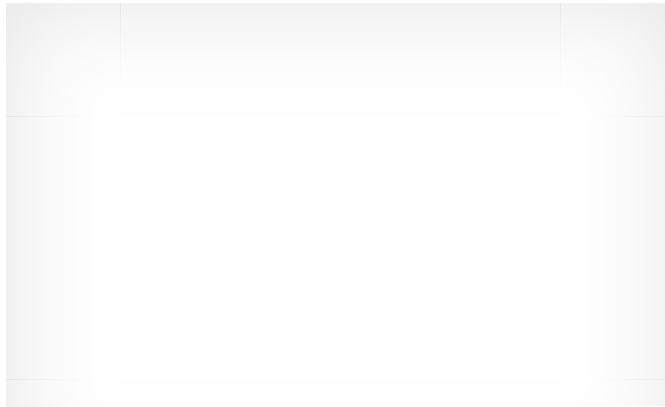
Picture: REUTERS

A proposed tax on SA's chrome ore exports would do more damage to the country, its chrome miners and its relationship with Chinese ferrochrome businesses, which could find alternative sources of cheaper, better quality material.

This is the finding in a study by independent economists Genesis Analytics commissioned by nine companies that form Chrome SA and represent more than half of SA's annual chrome ore exports of about 14-million tonnes.

The ferrochrome producers in SA, which the government proposes supporting through the imposition of the export tax, responded "dismissively" to the study and were looking after their own interests through the simplistic argument that SA, as the world's biggest chrome ore exporter, could impose any tariff it liked on chrome ore exports, said the study's author, Paul Anderson, a partner at Genesis.

The study indicated that SA could forfeit between 22% and 32% of its chrome ore exports to China if it imposed a tariff of between 30% and 40% on its ore as proposed by independent economic research institution Trade & Industrial Policy Strategies (TIPS).



SA's chrome ore was relatively cheap but low grade compared with ore from other jurisdictions such as Kazakhstan and India, said Anderson, adding that a tariff in line with the TIPS proposal would simply spur other producers to ramp up their spare capacity and supply China, the world's largest source of steel.

Major ferrochrome producers in SA, however, argue that Genesis has erred and that at most the reduction in the country's exports would be 10%, but most likely half of that because there simply was not enough capacity in other chrome ore jurisdictions to replace SA's ore in any significant way.

SA's two largest ferrochrome producers, Glencore and Samancor, have shut smelters and cut thousands of jobs in the past two years as their businesses struggle to compete against China.

They argue the possible reduction in jobs in the chrome ore mining industry has to be weighed against losing the entire ferrochrome industry and its 12,000 people, the 6,000 jobs in the domestic anthracite mines that supply reductants to the smelters, and the effect on SA's only stainless steel producer Columbus Stainless Steel if it had to import more expensive ferrochrome to replace the shuttered domestic supply.

They see SA, which supplies more than 80% of seaborne chrome ore, in a strong position and that the buyers of the material would have to absorb the cost rather than the domestic suppliers.

The ferrochrome producers argue that the tariff is just one measure to keep the industry afloat while more structural fixes are implemented, most notably around electricity supply and costs to keep smelters open and bring output to more than 5-million tonnes a year from 3.6-million tonnes.

It was highly likely that chrome ore producers would absorb as much of the tariff as possible to save their export markets, resulting in job losses among the 7,500 people working at these operations, reduce sales to the detriment of the fiscus and close marginal mines, Anderson said.

While the tariff could bring relief to SA's ferrochrome producers, which with their 3.6-million tonnes of production are a distant second to China, that benefit would be quickly eroded by double-digit electricity price increases imposed by Eskom.

Eskom's prices, which have increased more than sixfold in a decade, are the primary reason SA's ferrochrome industry is not competitive against China and other jurisdictions despite securing chrome ore from its own mines at half the price at which China is buying it from SA, Anderson said.

Chrome SA members, which comprise dedicated chrome miners and big platinum miners such as Sibanye-Stillwater, Anglo American Platinum and Impala Platinum, only heard about the cabinet's support for the proposed tariff at the end of October when the government released a statement, said Tharisa CEO Phoevos Pouroulis.

Chrome SA has approached the Competition Commission to halt the imposition of the tariff and to engage the government in talks, he said.

seccombea@businesslive.co.za

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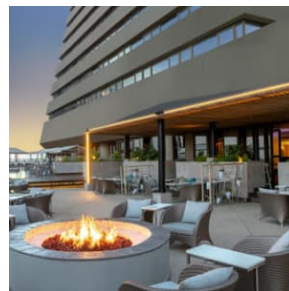
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