

MEDIA STATEMENT

MINERALS COUNCIL COMMENTS ON MEASURES TO SUPPORT THE CHROME VALUE CHAIN

Comprehensive “toolbox” of measures required to improve the competitiveness of the entire Chrome Value Chain.

Johannesburg, 27 October 2020: The Minerals Council South Africa represents companies that are involved in primary chrome ore mining, that produce chrome ore as a by-product of platinum mining and the integrated ferrochrome producers. The Minerals Council has an active Chrome Leadership Forum where several challenges facing the value chain, and potential solutions have been discussed.

About 80% of the world’s annual chrome ore production is used in the production of stainless steel. South Africa produces about 1% of the world’s stainless-steel production of 52 million tonnes, which is dominated by China with a 56% share. South Africa accounts for 200 million tonnes or 35% of world’s known chrome reserves (economically recoverable) and 70% of world’s chrome resources. Over the past decade the South African chrome ore mining business has grown strongly with primary chrome ore exports rising from 4.7 million tonnes in 2010 to 14.1 million tonnes in 2019. If chrome produced as a by-product of PGM mining is included, South Africa accounted for 78% of primary chrome ore world supply in 2019.

Over the past decade South Africa’s ferrochrome production has risen from 3.2 million tonnes to 3.6 million tonnes in 2019. However, despite this modest growth in aggregate terms, South Africa’s share of the world ferrochrome production fell from 47% of the total in 2010 to 25% in 2019. In the past two years nearly 40% of South Africa’s ferrochrome production has either been closed or mothballed.

There are several issues that affect the competitiveness of the entire chrome value chain in South Africa. The significant 523% rise in the price of electricity over the past decade and shortages of electricity supply have affected the production of mining companies and materially eroded the competitiveness of the ferrochrome industry. Uncertainty of the trajectory of electricity prices and the reliability of supply has had a huge impact on future planning for both the chrome ore producers and for the integrated ferrochrome producers. The fact that large scale electricity users subsidise



other users to the tune of R10 billion annually probably adds another 10% on to electricity costs. The use of the winter peak demand tariff by Eskom also penalises intensive users. More than half of chrome and ferrochrome by volume is moved by road transport and not rail which is more expensive. Transport and port bottlenecks and high costs have further undermined competitiveness.

The Minerals Council Chrome Leadership Forum is agreed that a toolbox of measures should be implemented to assist the entire chrome value chain to enable further growth of the chrome ore producers and to stabilise the ferrochrome businesses. Specific solutions discussed with government, Eskom and Transnet include:

- The investigation of a developmental pricing mechanism that provides short term support for ferroalloy producers in distress while also looking at a longer term electricity pricing mechanism to enable longer term planning.
- The critical need to review the current electricity intensive user cross-subsidy and to possibly phase this out. Also, to see if the winter peak demand tariff cannot be adjusted.
- The critical need to enable investment in self-generation for own use and improving the reliability of the Eskom fleet. Good progress has been made on this issue with the DMRE.
- The critical need to get more chrome ore and ferrochrome onto rail and off the roads. A chrome technical task team has been established with Transnet Rail Freight to drive synergies, improve coordination, and improve rolling stock availability.
- The need to improve port efficiencies and capacity to increase exports and lower costs is important and is being looked at.
- Engagement on providing incentives for the ferrochrome producers, such as a S37E Income Tax benefit for investment in updating the capital stock of the smelters.

There is broad agreement in the Chrome Leadership forum that the abovementioned measures if applied in a comprehensive manner can play a role in supporting the whole chrome value chain. There are efforts by government to engage all parts of the value chain on this issue and the conversation is ongoing.

The Minerals Council has revised the statement that was issued on Friday, 23 October:

<https://www.mineralscouncil.org.za/industry-news/media-releases/2020/send/60-2020/1282-minerals-council-comments-on-measures-to-support-the-chrome-value-chain>

For further information, please contact:

Charmane Russell

Tel: +27 (0)11 880 3924 or Mobile: +27 (0)82 372 5816

Email: charmane@rasc.co.za

Memory Johnstone

Tel: +27 (0)11 880 3924 or Mobile: +27 (0)82 719 3081

Email: memory@rasc.co.za

Alan Fine

Tel: +27 (0)11 880 3924 or Mobile: +27 (0)83 250 0757

Email: alan@rasc.co.za

Web: <https://www.mineralscouncil.org.za/>