MINERALS COUNCIL
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A well-considered economic plan, not mineral export taxes or quotas, will drive industrialised growth

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The absence of a co-ordinated and coherent economic development plan that harnesses South Africa's mineral endowment, capability of its people and world class capital markets continues to sow confusion in policy making within government.

The interventions outlined by the South African government and some of its agencies to stimulate beneficiation of minerals and metals are muddled, ill-considered and putting the mining industry, a flywheel of the economy, at risk.

Pronouncements in Cabinet Statements, gazetted government communications, comments by ministers and state-owned entities as well as in strategies recently developed within the African National Congress (ANC) have singled out chrome ore for export taxes and that export permits as part of a strategy to revitalise the moribund domestic ferrochrome industry. Another key proposed intervention in this strategy is cheaper electricity.

If the government regards chrome as a test case for its overall beneficiation strategy to compel mining companies to restrict exports in favour of domestic sales, then understanding the reasons why South Africa is no longer a major global source of ferrochrome is instructive about the consequences of both the government's actions and inactions.

The chrome and ferrochrome markets are complex. There are many factors in South Africa, China – as a major importer -- and other economies influencing supply and demand dynamics and the prices of sea-borne chrome and ferrochrome, the key ingredient for stainless steel production. As the world's largest supplier of chrome ore, South Africa's proposed 25% price increase, as outlined in the ANC's Growth and Investment Strategy, will undoubtedly cause ripples across the global chrome, ferrochrome, and stainless-steel markets.

In a sustained public campaign to address the damaging consequences of decades of mismanagement and state-capture at Eskom, which have resulted in electricity prices for the mining and ferroalloys industries rising by more than 900% since 2008, and the country coming close to a full-blown economic crisis amid failing energy supplies, the government narrative is

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that chrome ore exports must be controlled in favour of revitalising domestic ferrochrome smelters, the majority of which are closed, to save and create jobs.

In mid-October, Fastmarkets senior analyst Robert Cartman estimated that South African ferrochrome production would fall “towards 2 million tonnes” from between 3-million and 3.3 million tonnes in 2024. If the environment for smelters remains unchanged, “then another pullback in South African output for 2026 as a whole is reasonable and output could conceivably come in at 1 million – 1.5 million tonnes,” he said.

China has installed ferrochrome capacity of some 14 million tonnes, with rapid expansion since 2000 to meet domestic demand for stainless steel, overtaking South Africa as the leading source of ferrochrome which it forfeited during the past 17 years when it endured constrained electricity generation and soaring tariff increases.

A decade ago, South Africa had seven major ferrochrome producers, with installed capacity of 5 million tonnes, and the country accounted for a third of global ferrochrome production. China was slightly higher at 37%.

However, aging smelting technology, a service crisis in state-owned Transnet’s rail operations, and loadshedding combined with rapid electricity price increases resulted in closures as the ferrochrome sector was rendered uncompetitive. Now, there are two ferrochrome producers left, Glencore Ferroalloys in a partnership with Merafe Resources, and Samancor, with a total installed capacity of about 4 million tonnes. Both have idled smelters this year and are undergoing restructuring.

South Africa accounted for 17% of global ferrochrome supply in 2024, compared to China’s 58%.

The number of ferrochrome jobs have fallen to about 4,800 from more than 7,500 a decade ago.

The primary chrome sector by contrast has grown production by 50% over the past decade to become the dominant global supplier of chrome ore, with an 83% share of exports, while employment has grown by 40% to nearly 26,000 jobs.

China imported $6 billion worth of chrome ore in 2024 of which $4.75 billion came from South Africa, more than 10 times the next closest supplier, Zimbabwe, which sold China $422 million worth of chrome. In 2012, South Africa’s chrome exports to China were worth about $1.3 billion.

Restarting ferrochrome smelters cannot come at the expense of the primary miners and the platinum group metal miners that produce chrome as a valuable by product.

The government’s intentions to impose an export tax on chrome ore exports have been around since 2012, but this time round there appears to be a more concerted government effort to win hearts and minds of the public to back a strategy that has not been fully discussed and analysed with the Minerals Council and its members on the potential unintended consequences, which includes China turning to other suppliers, domestic chrome producers absorbing part or all of an export tariff to remain globally competitive, threatening the financial viability of their operations and jobs.

The Minerals Council reiterates, the key constraint in the South African ferrochrome industry is the cost of electricity, which is globally uncompetitive, rather than the availability and cost of chrome. Ferrochrome plants are generally supplied by their own mines, which have dedicated ore production to feed those smelters, and/or historic long-term supply contracts, obviating the need for export tariffs or quotas to ensure they have chrome ore.

Given this understanding of the chrome and ferrochrome industry, it begs the question whether the government has truly applied its mind and analysed its proposed interventions in the ferrochrome sector. Cheap and readily available electricity is the universally agreed solution for beneficiation, value-addition and general industrialisation that has been proven many times.

South Africa's industrialisation was initially achieved by very competitive electricity prices from Eskom until the early 2000s, but in an energy-scarce country with exorbitant electricity prices and an economy that is flagging, granting a single industry lower electricity prices is not a simple intervention. Providing cheap power for one sector means another is either going to have less or will have to subsidise it. There are many businesses across the economy which are facing similar challenges to ferrochrome.

Of critical consideration and imperative action are the development of enabling policies that attract investment and provide for safety of capital and equipment as well as reducing the cost of doing business. Business-friendly policies are vital to to build manufacturing capacity that will naturally source locally mined minerals and metals. To force mining to subsidise South Africa's industrial ambitions will increase costs and reduce the industry's global competitiveness, resulting in job losses, as we have witnessed in the diamond industry. For mine-host communities, this will be devastating. This is simply not an option that can be left unchallenged.

From well below R50 billion 25 years ago, domestic mineral sales now top R248 billion, with a growing diversification in purchases, an indication of market forces at work without a heavy-handed government approach of curtailing mineral exports with the blunt instrument of taxes or broad-based and ill-considered quotas.

The proposed chrome ore export tax and possible quotas are a short-term opportunistic response that does not take into consideration the negative impacts they will have on mining operations, which is one of the strong economic sectors despite the prevailing headwinds of below-par rail and port efficiencies and very expensive electricity.

The disorganised approach in government towards mining is frustrating. The Minerals Council, whose members represent 90% of annual mined production by value, has invested considerable time and effort in formulating recommendations for an appropriate minerals policy, with the rare opportunity presented in the Mineral Resources Development Bill to create an encouraging investment environment to grow mining and create jobs.

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Talk of imposing a chrome export tax on this second fastest growing sector (after manganese) in the mining industry without full and open consultations with all stakeholders stands in stark contrast to the efforts of the Minerals Council and the Department of Mineral and Petroleum Resources to change minerals policy for the better.

It does not bode well for a clear economic strategy that will resonate with both domestic and international investors in an uncertain world riven by political and economic turmoil.

Considering the partnerships the government has with business to urgently and sustainably address the crises in electricity, logistics and crime and corruption, this proposed imposition of a chrome export tax and possible export quotas is remarkable for its deviation from the partnership approach to resolve economic problems.

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