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MZILA MTHENJANE: Inclusive, pragmatic solutions needed to save chrome industry

Government assistance must address reliability and affordability of power

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The government's proposed actions to save the waning local ferrochrome industry will adversely affect the chrome mining sector — a high criticality mineral and one of the few growing segments in the domestic mining industry.

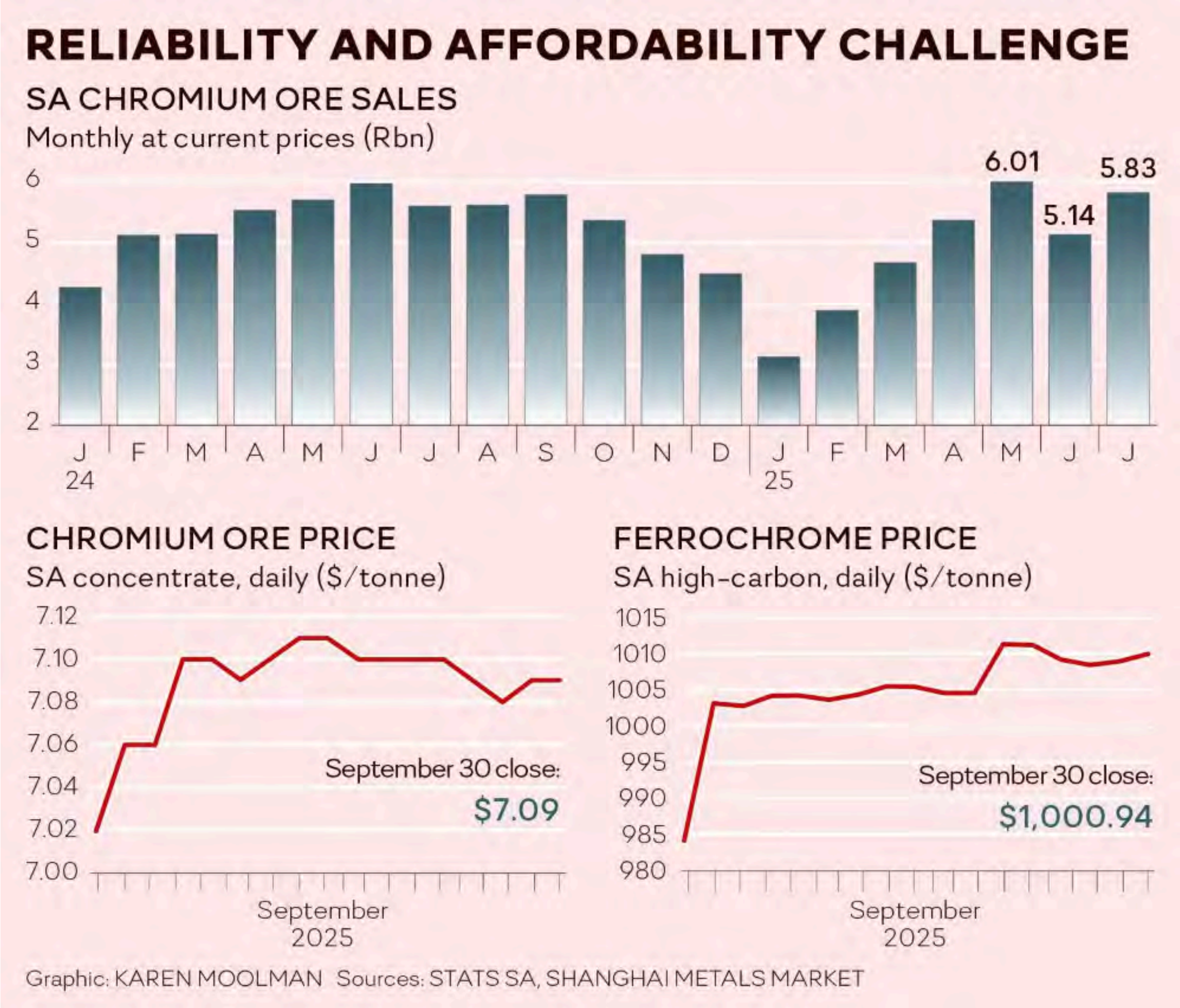
SA's chrome sector comprises primary chrome producers that mine and concentrate chrome for export. Companies mining platinum group metals

(PGMs) extract chrome as a valuable by-product. Integrated chrome companies mine, as well as concentrate and smelt, chrome to make ferrochrome, which is essential in stainless steel production.

SA has more than 70% of the world's known chrome resources and dominates global chrome sales. According to SA Revenue Service data, SA exported 20.5-million tonnes of chromium ores and concentrates in 2024 — a record high for a calendar year, surpassing the 17.8-million tonnes exported in 2023. Total chrome sales generated R63bn last year, making it the fourth-largest sector in mining by revenue, contributing to the fiscus and sustaining downstream industries. It directly employs nearly 26,000 people.

However, an almost 900% increase in electricity prices in little more than a decade in SA has resulted in the country forfeiting its leading role as a ferrochrome producer because domestic smelters are no longer competitive, while China — importing SA chrome — is now the largest source of ferrochrome for its stainless steel manufacturing industry.

As recently as 2016 SA ferrochrome production peaked at 15-million tonnes, more than half of global supply. Yet by 2024 output had declined to less than 4-million tonnes.



In a June cabinet statement the government outlined three interventions for the chrome and ferrochrome industries to arrest the decline in the country's ferrochrome smelting output. These high-level proposals included beneficial electricity tariffs for smelters, an export tax on chrome leaving SA and the requirement that all chrome exporters obtain permits from the International Trade Administration Commission (Itac) of SA.

However, the proposed interventions in the chrome ore industry are likely to impose a real cost on the nonintegrated chrome companies, their employees and dependants, as well as mine-host communities. This for a very limited improvement in the cost structure of the ferrochrome smelters, and probably no increase in actual SA ferrochrome production.

The mechanism to provide preferential electricity pricing for smelters is unclear, but it would ultimately have to be subsidised elsewhere in the economy. The high and rapidly increasing price of electricity in SA is already having a severely negative effect on businesses and households. The economy is stagnating and large industries are shedding jobs, making the juggling act on preferential power tariffs a difficult, if not impossible, one.

It is the view of the Minerals Council SA that nonintegrated chrome miners, which rely on exports amid elevated demand from the world's largest steel manufacturer, are likely to bear the brunt of the adverse effects of these proposed actions. China could respond unfavourably to an artificial increase in chrome prices, which would have knock-on impacts for its ferrochrome and stainless-steel industries and trade relationships.

Typically, in the context of an informed industrial policy, export controls and taxes could be designed to funnel more chrome concentrate into local smelters. But many large ferrochrome producers have their own mines and have long-term chrome supply agreements. They are well supplied and even export chrome themselves.

Any restriction would therefore not improve chrome supplies to smelters or revive shuttered plants. Instead, it would hit nonintegrated (and possibly all) chrome miners hard, affecting operations, export revenues and related jobs.

Despite SA being the biggest producer and exporter of chrome ore and concentrates, the global market remains competitive and Chinese buyers can buy some of their chrome requirements from other countries. The likely outcome is that local chrome exporters would have their production displaced and margins reduced, which would put their operations at risk and threaten jobs.

Chrome miners operate on thin margins. Any negative effects on their profitability threaten business viability, supply chains, tax revenues, jobs and related livelihoods. The downstream costs to the local economies and communities as well as SA's fiscal performance, could far outweigh the gains for smelters.

Export interventions assume smelters need cheaper concentrate to compete globally. Yet SA ferrochrome producers already pay about 50% less for chrome compared with Chinese producers — their real disadvantage comes from high electricity costs, which are up to three times higher than in China.

Electricity alone accounts for almost half of ferrochrome production costs in SA. Unless electricity prices drop, smelters won't be competitive no matter how the prices or supplies of chrome shift.

Depending on factors such as seasonal demand and transmission zone distance, smelters would require a minimum 40% discount on electricity tariffs just to break even and remain globally competitive. Furthermore, Eskom's annual tariff increases, which significantly exceed the rise in the consumer price index, would erode this competitiveness within two to three years.

Discussions about assistance for the ferrochrome industry have occurred periodically over the past two decades, most recently about five years ago when, having incurred huge electricity tariff increases over the preceding decade and facing extreme cost pressures, the ferrochrome smelters gave notice to their workforces of the necessity to restructure. The industry is again in crisis, with almost all smelters shut and retrenchment processes under way.

The true challenge facing ferrochrome producers is reliability and affordability of power, not chrome availability or pricing. Government assistance should target electricity cost relief and structural energy reform, not penalise chrome miners and threaten a key sector in the mining industry. Policy must be aligned to support beneficiation and sector sustainability, not favour one part of the industry over another.

The Minerals Council SA calls for inclusive consultation and engagement with all affected stakeholders in the chrome industry to find pragmatic, inclusive solutions and avoid the introduction of measures that would be damaging overall and therefore counterproductive.

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