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CONTENTS • INHOUD

No.

Page
No. Gazette
No.**GENERAL NOTICE****Economic Development, Department of***General Notice*

33	International Trade Administration Act (71/2002): Draft Policy Directive on the Exportation of Ferrous and Non-Ferrous Waste and Scrap Metal	3	36090
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GENERAL NOTICE

NOTICE 33 OF 2013

DRAFT POLICY DIRECTIVE ON THE EXPORTATION OF FERROUS AND NON-FERROUS WASTE AND SCRAP METAL

1. **INTRODUCTION**

Recent years have witnessed a substantial expansion in South African scrap metal exports. The main driver has been high international prices, in turn driven largely by rapid growth and infrastructure investment in Asia.

Rising exports of scrap metal have deprived local scrap processors of affordable and quality inputs. The result has been job losses as well as the destruction of industrial capacity, risks to the newly-adopted national infrastructure programme and an impact on energy-use and the country's commitments to reduce carbon-emissions.

The Minister of Economic Development ("*the Minister*") is authorised by Section 6 of the International Trade Administration (Act 71 of 2002) ("*the ITA Act*") to prescribe that no goods of a specified class or kind, or no goods other than goods of a specified class or kind, may be exported from South Africa except under the authority of and in accordance with the conditions stated in a permit issued by the International Trade Administration Commission of South Africa ("*ITAC*"). The exportation of ferrous and non-ferrous waste and scrap metal is currently subject to control measures. However, these measures need to be strengthened to help deal with the de-industrialisation and job losses in the scrap processing industry.

Clear policy direction from the Minister, and effective regulation by ITAC, is needed to ensure that:

- a. Security of supply for local industrialisation needs, including safeguarding employment, are met;
- b. Those trading in scrap metal do so in a manner that does not adversely impact on infrastructure and the local manufacturing sector; and

- c. Any mechanism employed is transparent and provides certainty.

2. **REASON FOR THE DRAFT POLICY DIRECTIVE**

2.1 **Industry and job implications of rising scrap exports:**

The increase in the exports of scrap metal has deprived local steel mini-mills, foundries and other processors of scrap metal of affordable and quality inputs. Scrap is their preferred feedstock and a major cost driver. As a result, the industrial capacity needed for the infrastructure build programme and inputs into important downstream industries as well as jobs have been negatively affected.

The increase in the exports of scrap metal also has cost implications for local processors as the recycling of scrap metals rather than production from ores is energy-saving and thus cost-saving.

The availability of quality scrap at competitive prices is therefore an important factor in the performance of the scrap processing industry.

This is recognised in many other large developing countries. A substantial proportion of South African scrap metal exports are destined for Asia. It is noteworthy that some of the major destinations of South African scrap have imposed limits on their own scrap exports.

Scrap processing industries are significant not only because of their own substantial contribution to value-addition and employment, but also because they manufacture important intermediate products for other downstream sectors, which in turn give rise to higher value addition and labour absorption.

Foundries and other scrap processors produce components and cast products for capital goods for the auto industry and other manufacturing sectors as well as inputs for infrastructure, including long steel products and cables.

In the past few years, the South African economy has experienced a substantial decline in its scrap processing industry. The high costs of scrap, mainly as a result of rising exports, are a major factor behind this decline. The impact of higher input prices contributed to substantial closures and retrenchments with the National Foundry Technology Network (“*NFTN*”), a joint government and industry body, reporting a 13% drop in the number of foundries between 2007 and 2011, and the foundry industry recording a 30% drop in employment in foundries during the same period.

A further problem is that South Africa has not seen new entrants in these markets.

The decline in the foundry and related industries has had adverse consequences for both industrialisation and infrastructure development. Without a competitive manufacturing value chain, it is difficult to grow local machinery and equipment manufacture in response to opportunities arising out of the National Infrastructure Plan and the Industrial Policy Action Plan (“*IPAP*”).

A failure by local industry to respond sufficiently and timeously to increased demand will lead to greater levels of imports. That would expose the infrastructure-build programme to import risks and currency fluctuations.

Several factors have an influence on the competitiveness of the industries. Hence the government has introduced a number of supply-

side measures and is collaborating with the foundry industry to address these issues via the NFTN. However, given that scrap metal is the single largest cost factor, there must be efforts to improve the cost of scrap as well as to ensure the appropriate quality is available in order to address the competitiveness of the scrap processing industries, which will also help to improve the competitiveness of other important parts of the manufacturing sector.

2.2 **Energy and the environment:**

Scrap metal is an important resource for energy-efficient production, as most of the conversion energy required to convert an ore into a metal is retained in scrap. The properties contained in scrap metal make its recycle process more efficient and effective. To take full advantage of this, as much scrap as possible should be retained for local beneficiation.

Reducing energy intensity in the scrap processing industry is increasingly important considering rising energy costs and South Africa's commitment to pursuing a low carbon growth trajectory.

3. **OBJECTIVES OF THE DRAFT POLICY DIRECTIVE**

The level of unemployment and the associated industrial and social conflicts witnessed in recent years, require immediate measures to help stabilise employment and industrial development

The growth of South African industries using scrap metal input is particularly important at this time. Government has introduced a range of measures, such as the IPAP, the Automotive Production Development Programme and regulations in terms of the Preferential Procurement Policy Framework Act to promote local content and resuscitate value-adding manufacturing capacity.

The infrastructure programmes across government will mean improved levels of demand for machinery and equipment, as well as construction materials, for which the mills, secondary smelters and foundry industry produce intermediate inputs. Without a competitive manufacturing value chain, it will be difficult to grow local machinery and equipment to respond to this opportunity. Similarly, deepening component manufacturing in sectors such as rolling stock and automotive requires highly competitive sub-sectors in terms of both price and quality as these value chains are globally integrated.

The ultimate goal is to ensure that there is a steady supply of quality scrap metal to local users, at a price that is reasonable in order to support the local industry. This would give the local processing industry access to the appropriate quality and quantity of scrap and thereby increase efficiencies.

The proposed policy intervention has the following main key objectives in retaining ferrous and non-ferrous waste and scrap metal for beneficiation in South Africa, namely to:

- a. Counter de-industrialisation and ensuring security of supply of critical inputs for the national infrastructure build program;
- b. Improve the competitiveness of downstream industries through increased availability of high quality volumes of ferrous and non-ferrous waste and scrap metal at competitive and stable prices;
- c. Reduce energy consumption of the processing industries in order to reduce the impact on climate change and to help fulfil the country's commitments;
- d. Create decent jobs in the manufacturing value chain;
- e. Increase local content and thereby replace value added imports as a means to reduce pressures on the country's balance of payments.

In addressing the issues set out above, the Minister, in consultation with the Minister of Trade and Industry, has considered several policy options. These included an outright ban on scrap metal exports. While the benefits of this option

are clear and arguments were presented in favour of this option, the Minister decided against this option at this stage as it was seen as too harsh and too trade restrictive.

The Minister also considered export taxes as a policy option. Several trade associations and companies have called for export taxes to ensure a consistent supply of affordable scrap to local processors. While this option has not been discounted, the policy identified below has been decided on, taking into account the relative speed with which it can be introduced.

4. **DRAFT POLICY DIRECTIVE**

In terms of section 5 of the ITA Act, the Minister is empowered to issue Trade Policy Statements or Directives.

In terms of section 6(1)(d) of the ITA Act, the Minister has already prescribed that ferrous and non-ferrous metal may not be exported except under the authority of a permit issued by ITAC.

The Minister directs that ITAC exercise its powers, in terms of section 6(1)(d) of the ITA Act, in accordance with the following policy:

- a. Ferrous and non-ferrous waste and scrap metal should not be exported unless it has first been offered to domestic users of scrap, for a period determined by ITAC, and at a price discount or in terms of a formula determined by ITAC;
- b. To ensure the type and quality of scrap metal that are intended for export are accurately reflected on applications for export permits, all permit applications must be accompanied by confirmation from a metallurgical engineer, confirming the type, quality and quantity of scrap at hand for

export, and information on when and where such scrap metal may be inspected by prospective buyers.

The policy set out in paragraph 4(a) above will be in place for five years. At the end of this period, it will be reviewed to determine whether it should be terminated or extended for a limited period.

Consultation will also take place with those responsible for the administration of the Second Hand Goods Act to ensure alignment of policy and implementation.

This draft Policy Directive is issued for public comment before the Minister decides whether to issue a Policy Directive, and if so, in what terms. Stakeholders and interested parties are invited to submit comments on this draft Policy Directive.

Representations and comments must be submitted within a period of four (4) weeks from publication of this Notice to the Minister of Economic Development for the attention of Mr Paul Ledwaba, e-mail: PLedwaba@economic.gov.za, Economic Development Department, Private Bag x149, Pretoria, 0001 or hand delivered at 77 Meintjies Street, Block A, Utangamari Building, 3rd Floor, Sunnyside, 0132.

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