09 April 2020

Department of National Treasury
Tax policy depository
240 Madiba Street
Pretoria Central
Pretoria
0002

Submitted via email: 2020AnnexCProp@treasury.gov.za

NT invitation for comment of proposed taxes

Dear Sir and / or Madam,

Thank you for the opportunity to comment on the above-mentioned issue and herewith our submission, which follows on from the attached submission to ITAC of 15-Nov-2019, together with the zip file containing the relevant supporting data references.

Kindly read this document in conjunction with the afore-mentioned ITAC submission, commencing with the previous comments before proceeding hereunder:

1. At the outset it is important to note that scrap metal prices, are in effect, determined by international *new metal* markets and that South Africa is an undisputed scrap metal "price-taker". Furthermore, international new metal markets are in a significant glut state due to surplus production capacity. Therefore, it follows that scrap metal prices will continue to be suppressed into the foreseeable future.

2. Domestic scrap prices are determined by considering these international levels within the context of local dynamics, such as the USD / ZAR rate of exchange; government policy (PPS / tax); export parity fundamentals and supply-and-demand.

3. Consequently, South Africa is unable to influence the international market and irrespective of domestic scrap metal price levels, South African secondary metal producers will forever face international competitive pressures in terms of new steel pricing and product technical specifications.

4. Table 1 hereunder illustrates the effective tax rates of the proposed specific rand per ton tax levels based on average MTD prices as at 25 March 2020 i.e. prior to the events of 27 March (SA's COVID-19 lockdown and Moody's sovereign downgrade), which will serve to exacerbate these numbers.

<u>Table 1</u>

as follows.

Scrap metal category	**Equivalent specific tax (Rand per tonne)**	Inserted MTD figs @ 25.3.20:
Ferrous metals (including stainless steel)	R1000.00 per tonne	/ MB $242.37 x R16.42 = 25%
Aluminium	R3000.00 per tonne	/ LME $1643 x ROE = 11%
Red Metals	R8426.00 per tonne	/ LME Cu $5297 x ROE = 9.5%
Other (waste and scrap metals)	R1000.00 per tonne	

5. A typical metal recycler trades in 75 - 100 different scrap metal products daily (more than 50% of which are not sought by SA's secondary metal producers), each with a different value dependent upon that product's purity, with only the purest items in each category being valued anywhere near "London Metal Exchange" and "Metal Bulletin" values e.g. common aluminium sheet "TAINT TABOR" is typically valued (by foundries) at 50% of the published LME market and consequently, a fixed rand value tax equal to *10% of LME*, is in effect 20% of that product's value.

6. As previously mentioned, in real (USD) terms, LME base metals and ferrous scrap prices have reduced by approximately 50% during the past decade and given the current global economic circumstances, prices are anticipated to reduce further.

7. Therefore, in a falling market, a *fixed value tax* will incrementally represent a higher proportion of a diminishing product value, the effect of which will be to render lower value products unviable for recycling purposes. Unintended consequences of this will be decreased employment, decreased GDP and fiscal contributions and increased pressure on waste disposal landfill facilities.

8. Similarly, in a rising market, a *fixed value tax* will incrementally represent a smaller proportion of the product value and such a tax will ultimately be rendered irrelevant.

9. Ninety percent of all scrap metal in circulation is steel scrap (ferrous), which has a relatively low value compared with non-ferrous scrap and consequently, it has a disproportionately high handling cost component. Consider for example ferrous *grade 209* (compacted steel sheet metal) with an average March 2020 open market value of $212 per ton FOB Durban @ ROE R16.42 = R3500/t; less collection transport R250/t; less processing R250/ton; less inland-to-coast R500/t; less tax R1000 = net value <u>before purchase or profit margin</u> R1500/t i.e. 65% of the underlying product value is eroded by costs and taxes.

In summary, it remains our opinion that the unintended consequences of an export tax (or PPS) will outweigh the objectives of the intervention and we recommend the immediate abolishment of all artificial scrap metal price control mechanisms, in the best interests of not only the recyclers, but also of all downstream and upstream associated industries and indeed, the South African economy at large.

However if a tax is to be imposed, it is imperative that be *linked to the market to remain relevant going forward* and that is effectiveness is continually assessed by a National Treasury chaired committee, comprising also DTI / ITAC and all recognized stakeholder organizations.

The MRA executive committee is available for further engagement on the matter.

Sincerely,

Mike Wilson
Chairman
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