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South Africa's metal recycling crisis

Introduction:

The MRA is a SAPS certified employer association with 80 member companies, operating 150 licensed recycling facilities nationally, which is managed by a group of member volunteers who are elected annually. Membership of the association is also voluntary and member numbers have contracted by 40% since 2013, with similar reductions in member employment numbers and total recycling facilities operated by members.

TUTWA 2018 member survey: 5500 permanent employees (17 000 dependents) and 20 000 informal sector collectors (50 000 dependents) = total 90 000 people.

https://www.mra.co.za/wp-content/uploads/2018/11/MRA-Survey-2018_HK_181019.pdf

Note: Econex 2009 calculated informal sector collectors of 440 000 with 1.8m dependents.

MRA members process approximately 80% of all SA's scrap metal totaling approximately 4m tons PA, 90% of which is ferrous scrap and approximately 3m tons of which is supplied to domestic scrap consuming smelters (foundries / mills / mini-mills).

Broadly speaking South Africa has two distinct scrap generating regions: coastal, extending from Cape Town to Richards Bay; and inland with the greatest concentration being Gauteng. Due to a concentration of scrap consuming plants located inland relatively few at the coast, combined with high transport costs between the coast and the inland regions, coastal scrap is typically exported and inland scrap is typically consumed domestically. However in circumstances of excess local inland availability, or reduced local scrap demand, surplus inland scrap is also exported.

Note import / export parity costs for ferrous scrap, to / from Gauteng, is equal to approximately 20% of the average ferrous scrap value (10% inland transport and 10% ocean freight).

Background:

For the past decade new metal markets have been in a glut state, primarily due to production over-supply by China and the result has been that all metal types have halved in USD value terms during the period, which has impacted negatively on scrap metal prices.

In September 2013 South Africa introduced the Price Preference System, whereby domestic scrap consumers are offered prospective export scrap metal at ITAC determined discounted prices, which is presently under review in contemplation of being replaced by an export duty.

The MRA and countless economic experts advocate a free market system as the best solution to stabilize the domestic scrap market. However notwithstanding this perspective, due to the importance of maintaining cargo flow, the MRA is in favour of replacing PPS with smoother operating export duty system and recently proposed ferrous export duties of 10% and non ferrous duties of 5%, to DTIC in November 2019 and National Treasury in April 2020.

In terms of Alert level 4 regulations, metal recyclers were allowed to function at 50% of capacity and Alert level 3 allows operations at full capacity. However metal recycling is ostensibly a trading activity, whereby waste product sourced from industry; informal collectors; construction and SOE'S, are processed into a raw material for supply to the consumers.

The MRA started agitating for ITAC to expedite the issuance of outstanding permits on 23 March 2020 and continued doing so throughout the hard lock down period to the current date. Initial vague responses have recently been replaced by comments to the effect that in terms of the level 4 / 3 regulations, ITAC has been awaiting a ministerial directive to issue the export permits. In short, ITAC resumed non-essential administrative functionality on 01 May, but to date have not issued permits for export permit applications which "passed PPS muster" during the period 12 February – 25 March; nor for any applications submitted from 01 May to date.

When one considers that the materials in question have been purchased, processed and stockpiled from the last quarter of 2019 to the current period, one can appreciate the negative cash flow crisis caused to the sector, in the failure to realize sales (into the export market).

Requirements:

As with most industries, the recycling sector has been adversely affected by COVID–19 and to stimulate economic activity, it desperately needs access to the export market to generate liquidity, primarily for coastal lying scrap metal which either has already been declared "surplus" to local demand as described above, or cannot be transported to inland consumers due to logistics challenges.

Therefore we appeal to the president to issue a directive to ITAC, expediting the issuance of all outstanding permit applications pending, which has already passed muster in terms of PPS.

We further understand that DTIC is contemplating a temporary ban on the export of all scrap metal, which will amplify the recycling sector problems and which we contend is irrational, as all previous evidence suggests that South Africa has a surplus of scrap metal and we respectfully submit that any claim to the contrary are due to micro market factors, such as payment terms; price and regional availability – on this last point, it should be expected that the lockdown will negatively interrupt the availability of ferrous scrap metal in for example, Gauteng, but this situation will stabilize within a relatively short period (as industry comes online) and this does not serve as justification to stifle the flow of metal in the Western Cape, KwaZulu Natal, or any other area.

Furthermore, purported scrap shortages of ferrous scrap 201; 209 and 236, should not have any bearing whatsoever on the exportability of other grades of ferrous scrap, or indeed any type of non ferrous scrap. Note although non ferrous scrap quantity is typically only 10% of the total 4m tons PA volume, the value per unit of this scrap type is much higher than ferrous, meaning that the cash flow implication of this stock stagnation is exceptionally high.

To our knowledge the United Arab Emirates is the only country that has implemented a temporary ban on the export of scrap metal as a consequence of COVID-19 and that nation's circumstances are quite distinct from South Africa's and therefore, we find it wholly inappropriate to model ourselves on their example.

Therefore we submit that any notion of banning scrap metal exports should be dismissed and instead, that ITAC's processes should be radically transformed to embrace the opportunities that the export market presents for SA's surplus scrap metal.

Finally, in summary, our contention is that the regulations allow metal recycling activities to *continue as normal* and the sector already has an export control system in place to satisfy local requirement; therefore there is no rationale in prolonging the current stock movement blockages and we urgently seek an intervention which forces ITAC to issue the outstanding export permits which have been successfully processed in terms of PPS, and which by definition, are surplus to requirement.