ECONOMIC IMPACT OF TAX POLICIES AND CLOSURE OF AMSA'S NEWCASTLE PLANT ON SOUTH AFRICA'S STEEL SECTOR AND ECONOMY

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ECONOMETRIX

Introduction

- Econometrix conducted **evidence-based analytical research** regarding impact of government tax policies on SA's steel manufacturing industry.
- **Independent** study.
- **Today**: broad overview of key points & conclusions.
- **Detail** analysis and methodology to be found in the **report.**

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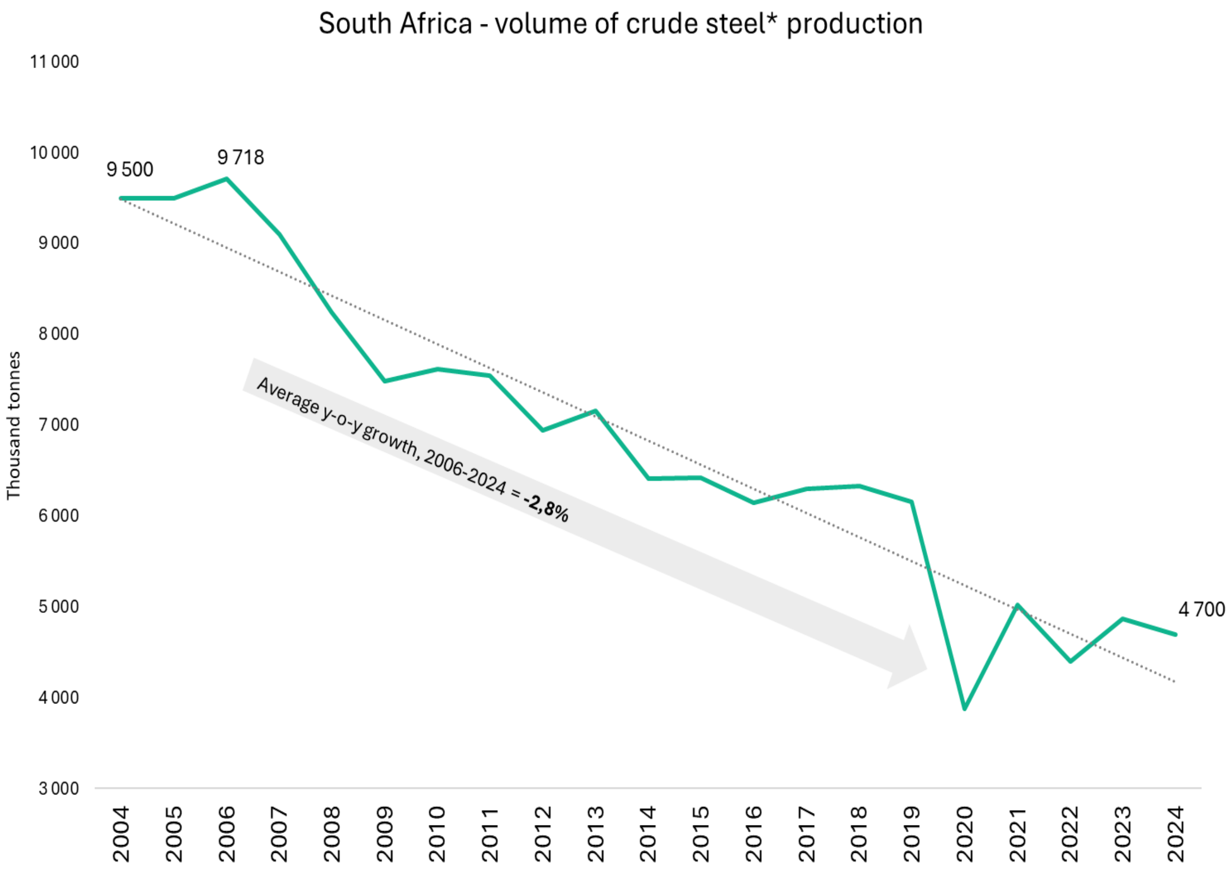
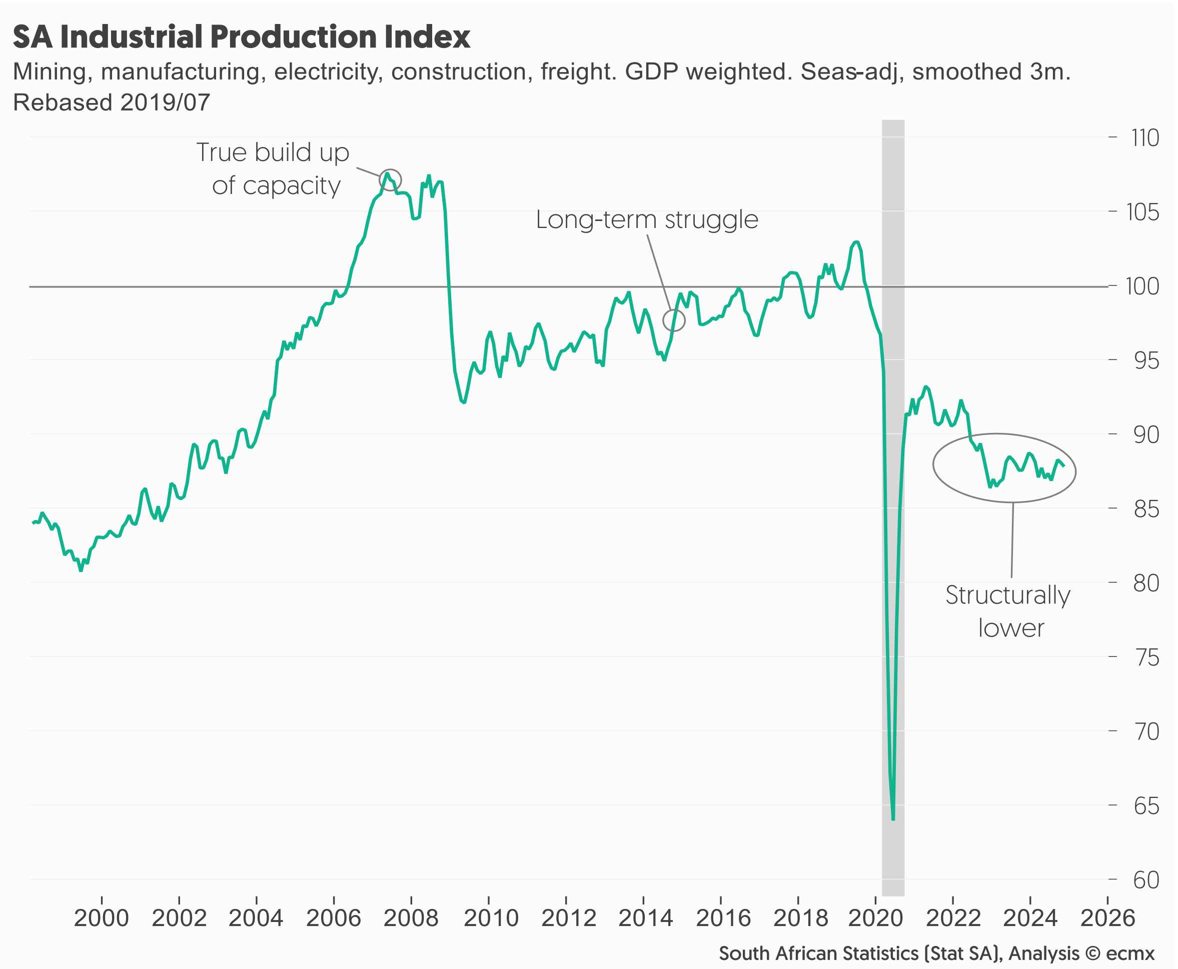
De-industrialisation in South Africa's manufacturing sector

- **Steel production: -40%** below its 2006 peak
- **Share of iron & steel manufacturing in SA's GDP:** 0.8% in 2010 to **0.3%** in 2023



Source: World Steel Association

* Includes all qualities: carbon, stainless, other alloy



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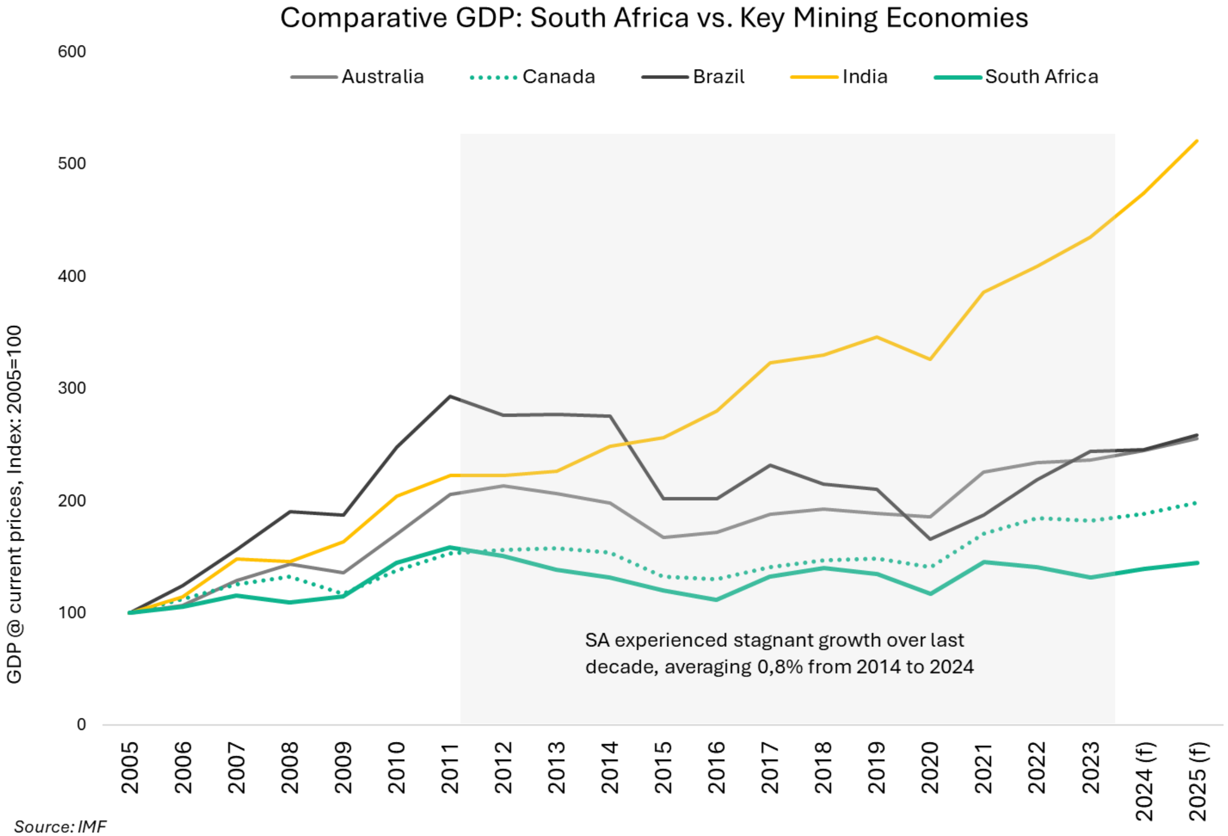
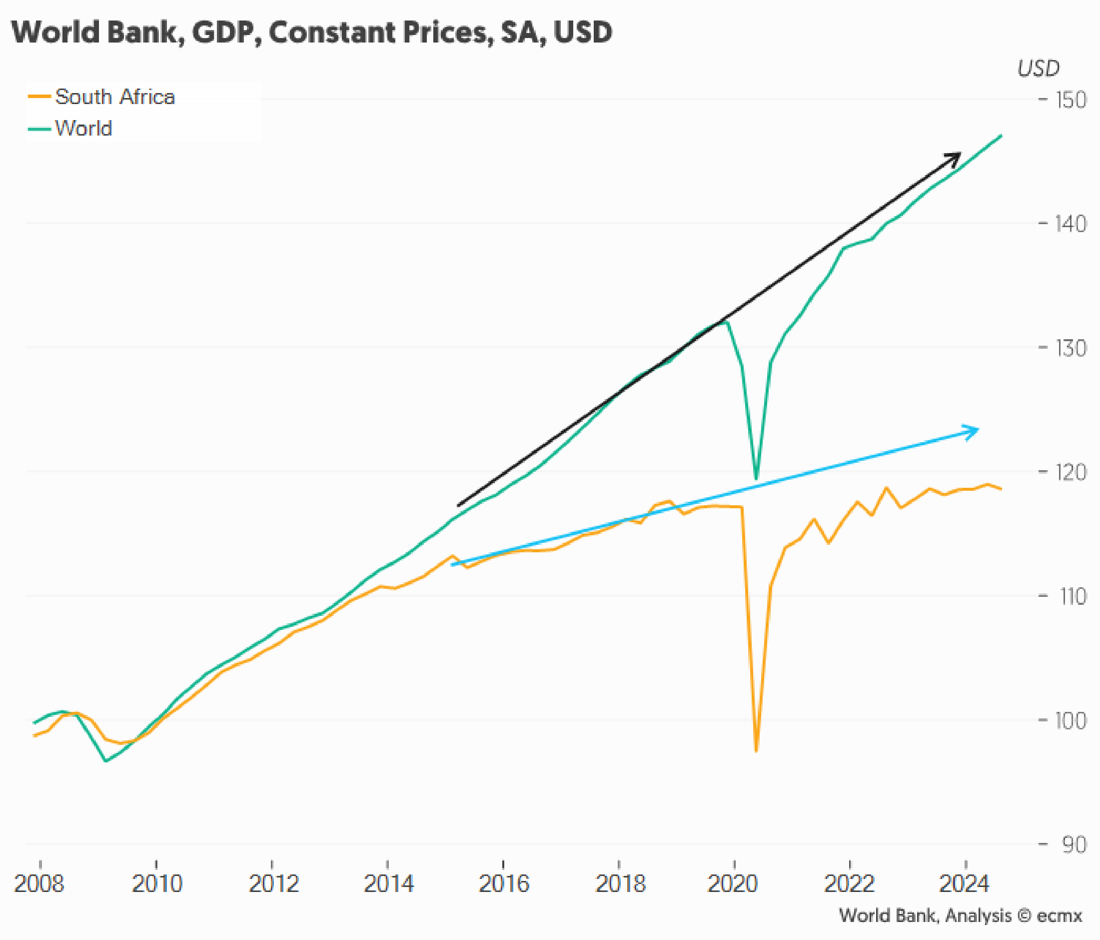
Structural and economic drivers of South Africa's declining steel output

Low, stagnant economic growth in SA



Source: IMF



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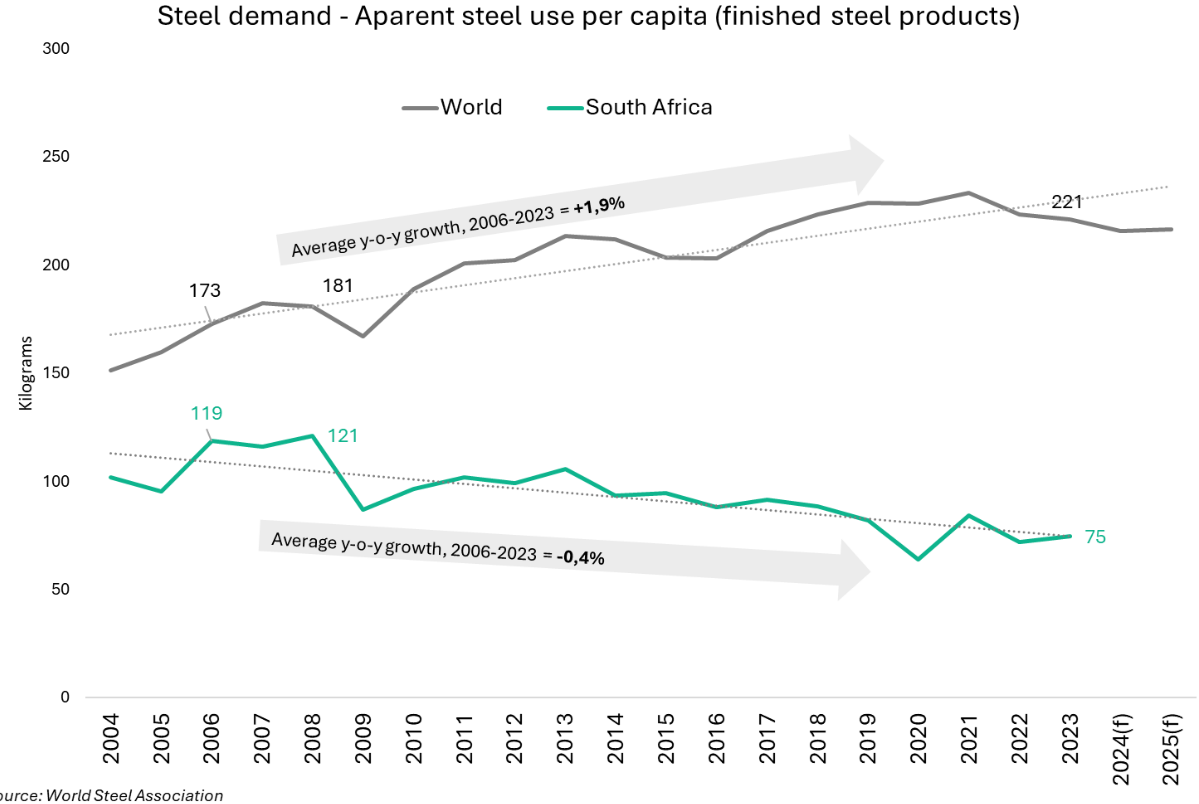
Structural and economic drivers of South Africa's declining steel output

Declining domestic demand



Source: World Steel Association

Increased steel production capacity, low utilisation rates

SA's steel production capacity grew ~25% in the past decade,

despite falling domestic consumption.

Overcapacity → pressure on prices, margins, balance sheets.

Mills operate @ **50%-55%** (avg), some low as 42% (unsustainable).

Overproduction → capacity rationing, shutdowns, retrenchments.

Demand Mismatch

Even when demand exists, local producers are not benefiting,

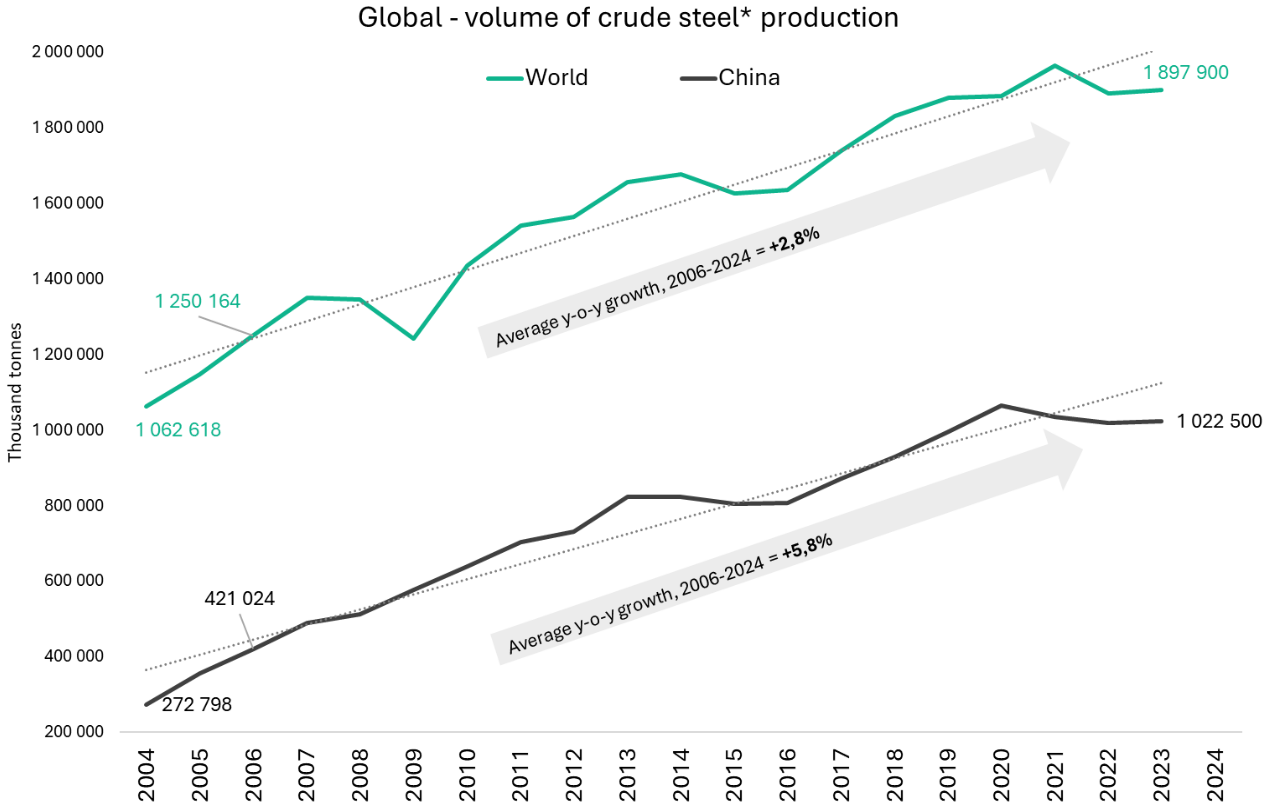
weakening the domestic industry.

Structural and economic drivers of South Africa's declining steel output

Stagnant downstream demand & fixed investment

Increasing global competition, particularly from **China**

= *largest steel producer and consumer globally*



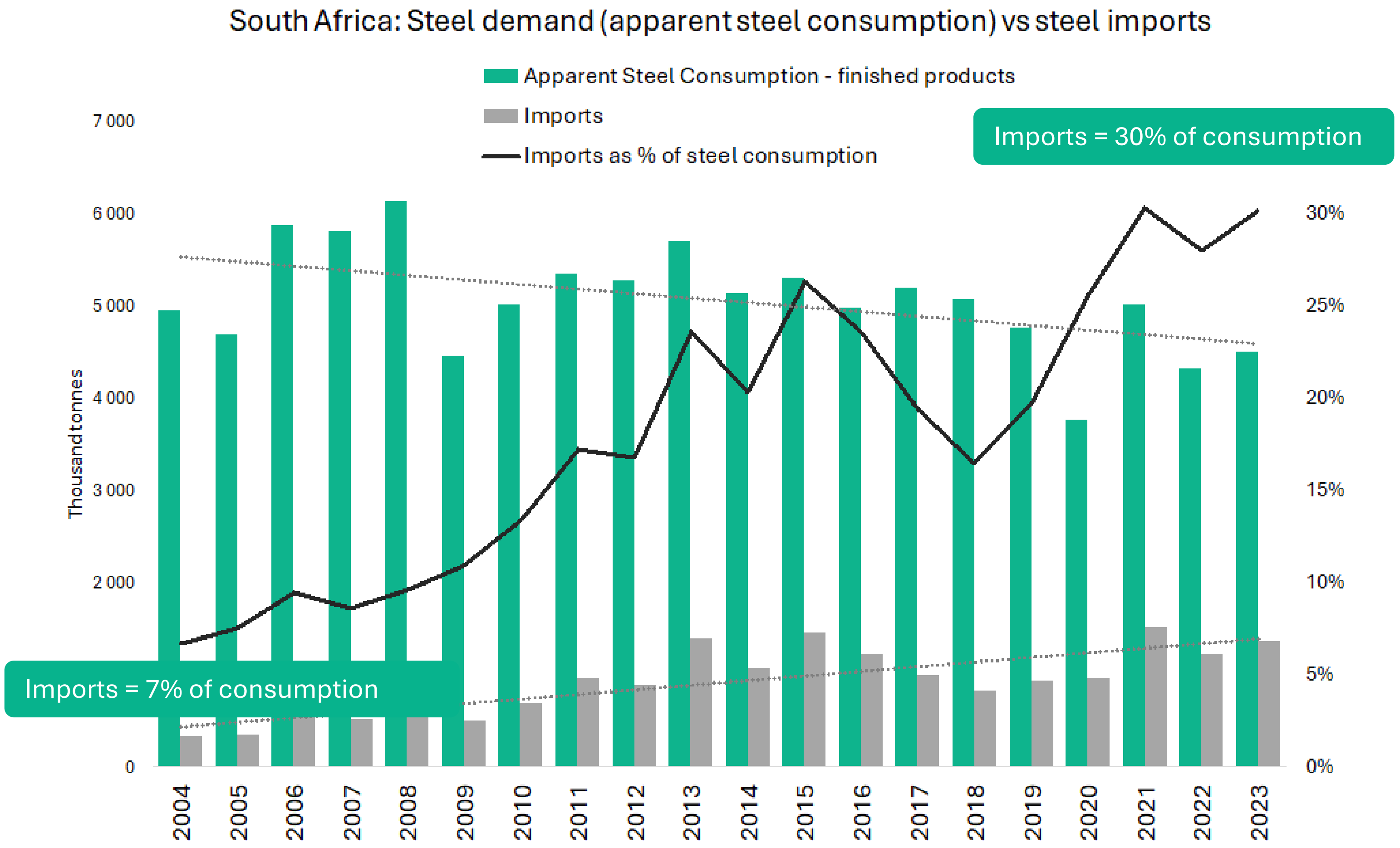
Source: World Steel Association

* Includes all qualities: carbon, stainless, other alloy

Structural and economic drivers of South Africa's declining steel output

Surge in steel imports: **+11%** increase annually since 2005

SA struggles to compete with cheaper imports



Source: World Steel Association, SA Iron and Steel Institute

Global Oversupply: ~300Mt, driving cheap imports.

Industry Threat:

Undermines demand for locally-sourced raw materials & jeopardises local domestic steel production.

Structural and economic drivers of South Africa's declining steel output

Structural challenges and rising input costs (transport & logistics; iron ore)

Logistics inefficiencies: Transnet, rail, and port constraints weaken supply chains.

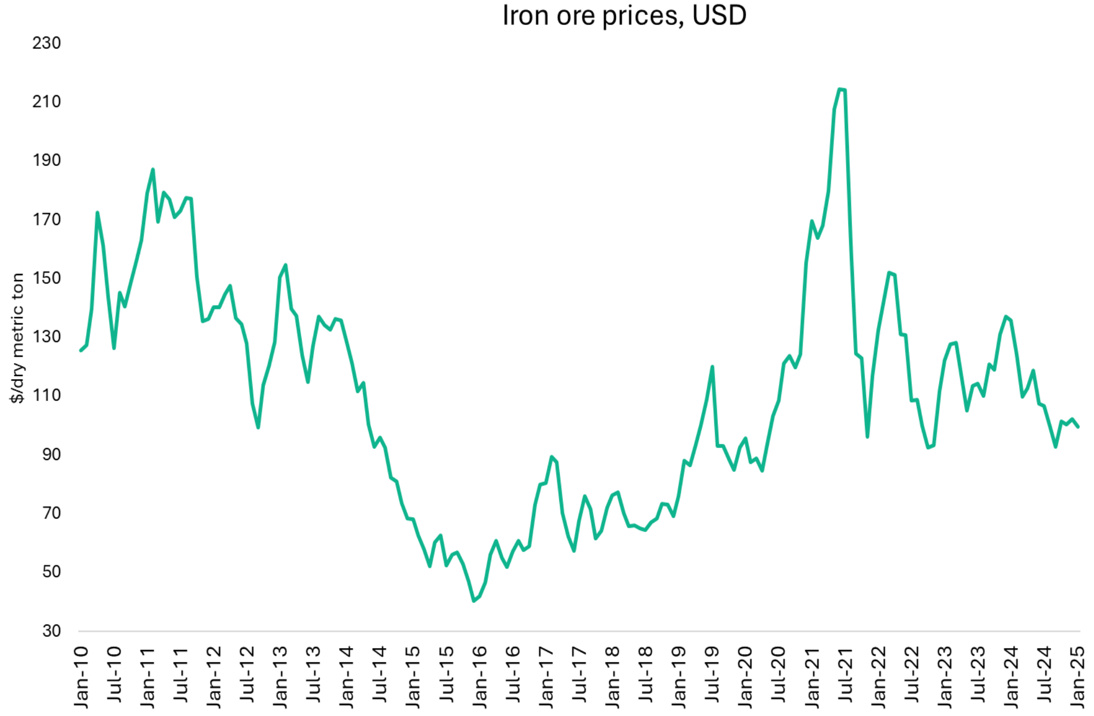
AMSA's reliance on Transnet: 91% of iron ore & 100% of coking coal for Newcastle transported via Transnet.

Rising costs hit primary producers hardest:

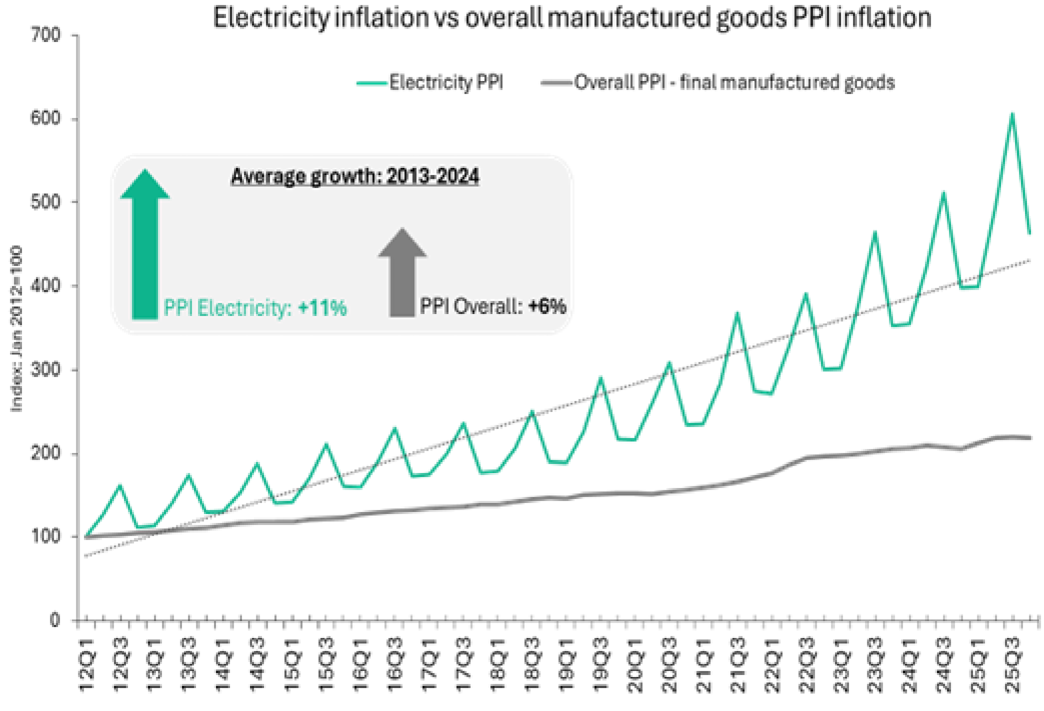
Electricity costs: ↑ +256% (R2.4bn in 2010 → R8.5bn in 2023).

Raw material costs: ↑ +56% (R48.3bn → R75.4bn).

- **Newcastle Plant:** faces challenges due to **high fixed costs and energy-intensive processes**.
- **Mini-mills advantaged**: use electric arc furnaces, benefiting from lower scrap input costs due to PPS & export tax policies.

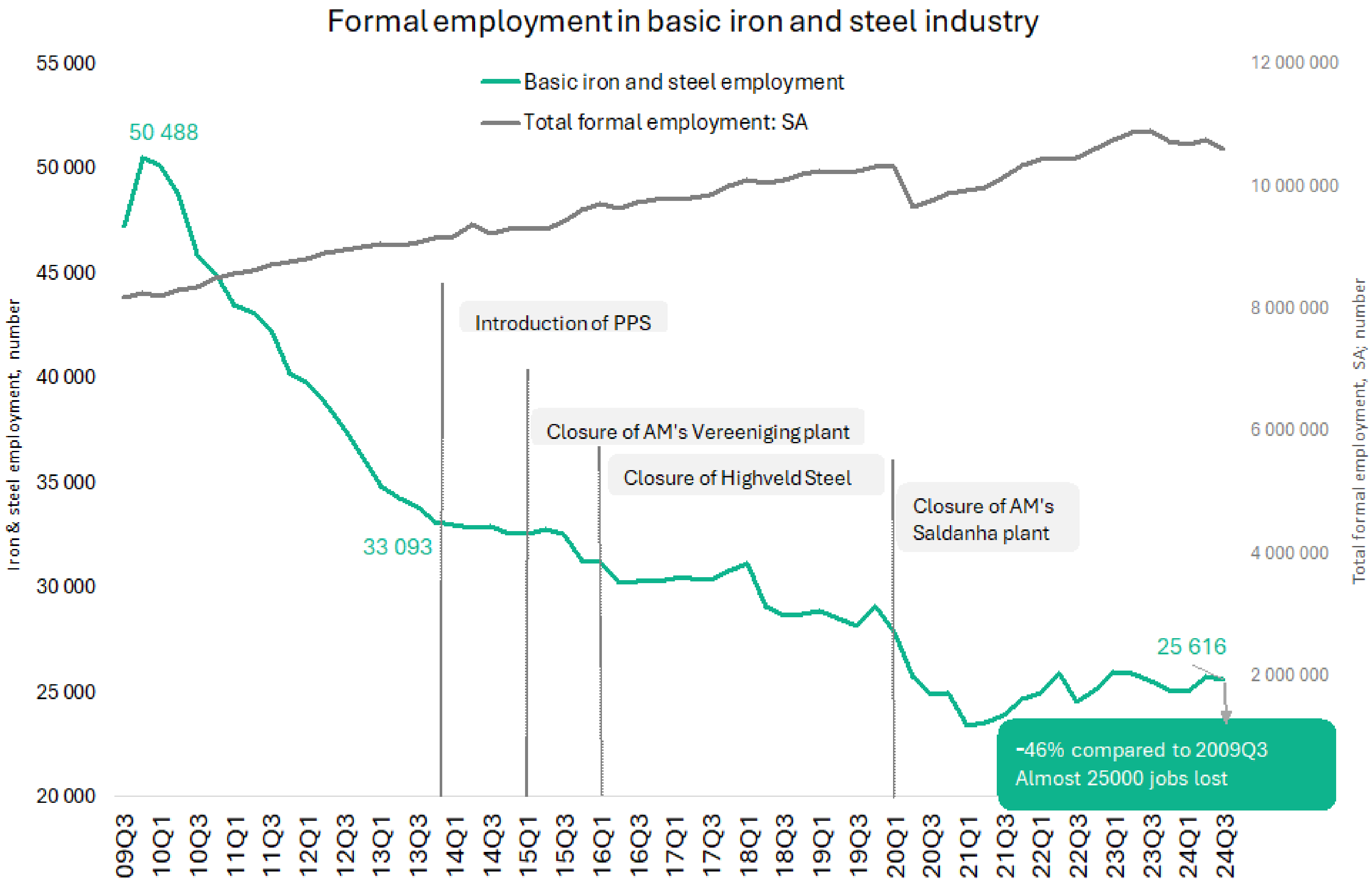


Source: World Bank



Source: StatsSA, Producer Price Index inflation; Using a baseline index method (i.e., setting the base index to 100 at 12Q1)

Consequences of South Africa's declining steel output



Source: Quarterly Employment Survey (QES)

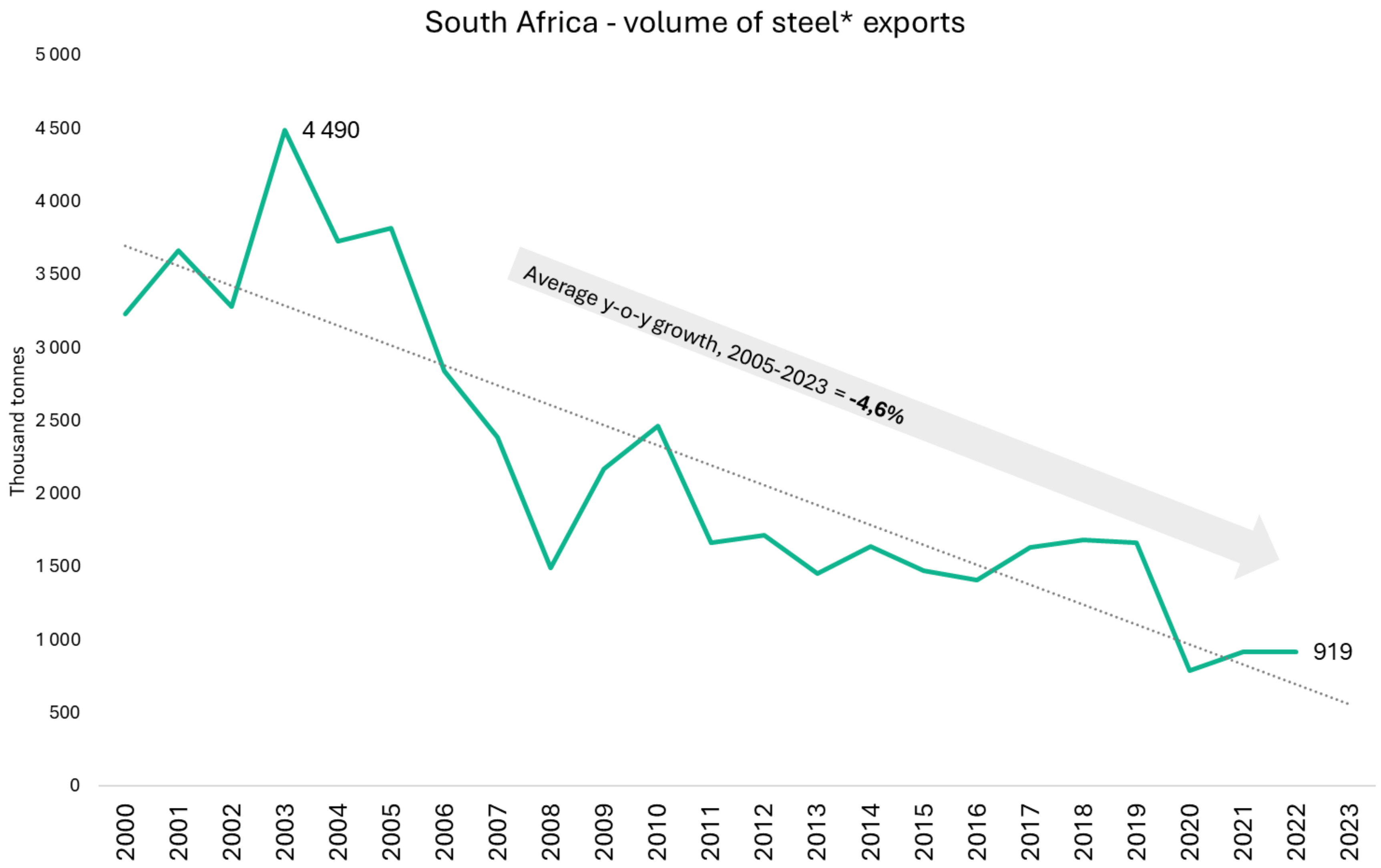
Employment in steel manufacturing sector:

-25,000 jobs (-46%): 2009-2024

-7,477 jobs since introduction of PPS (2014)

- 3,400 job losses with AMSA's Newcastle plant closure.

Consequences of South Africa's declining steel output



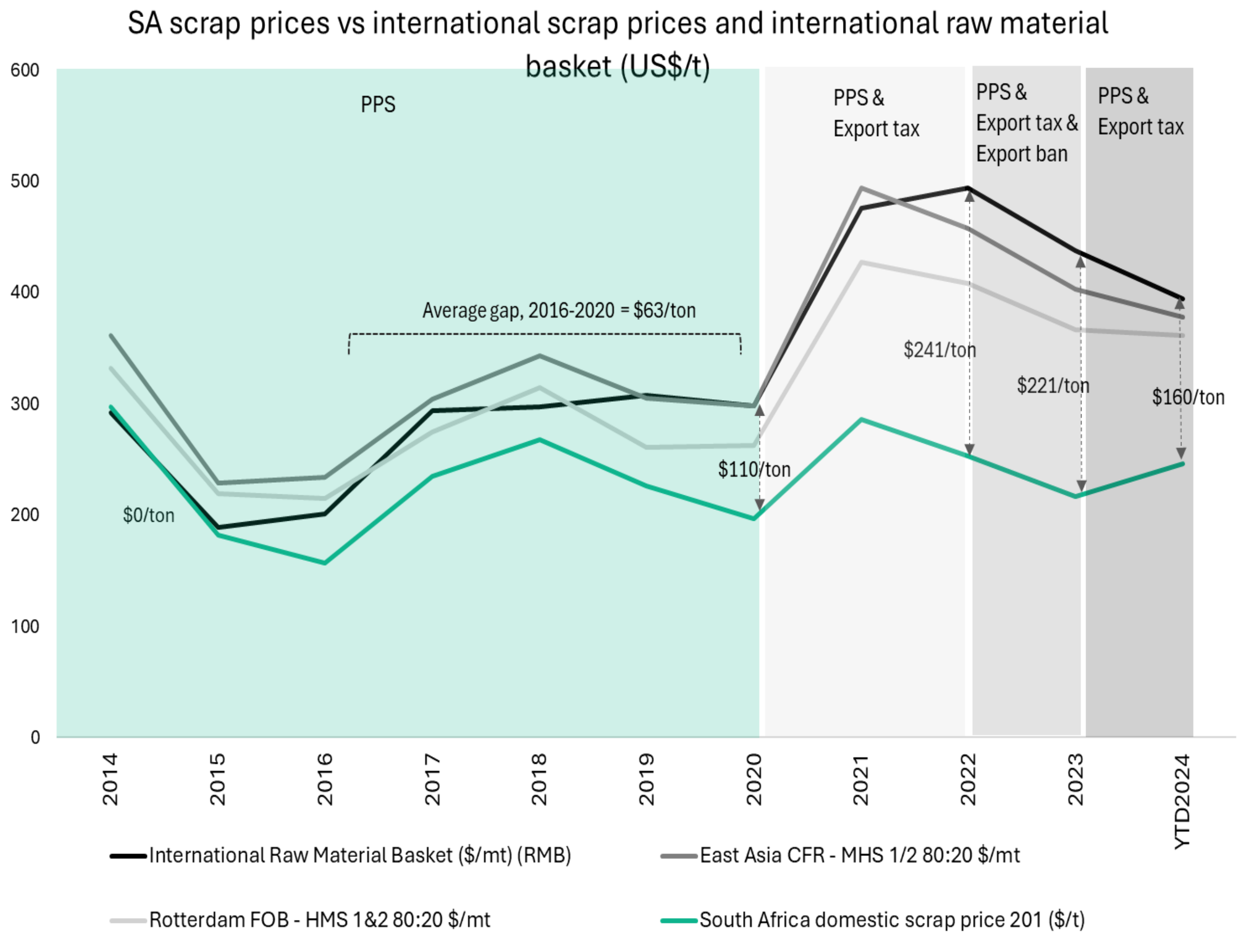
Source: SA Iron and Steel Institute (SAISI)

Impact of PPS & scrap export tax policies on **Scrap Metal Prices**

Suppression of SA scrap metal prices: below global levels since 2016

Widening Price Gaps with policy implementations:

PPS	PPS & Export tax	PPS & Export tax & Export ban	PPS & Export tax
$63/ton (2016-2020)	$241/ton (2022)	$221/ton (2023)	$160/ton (2024)



Negative impact of policies on price:

1. Disrupts & distorts fair price of scrap in SA.
2. Detrimental to scrap collection & processing sector.
3. Lower scrap prices: very limited benefit to foundries = threatens primary steel industry's viability.

Impact of PPS & scrap export tax policies on **Metal Scrap Recycling Industry**

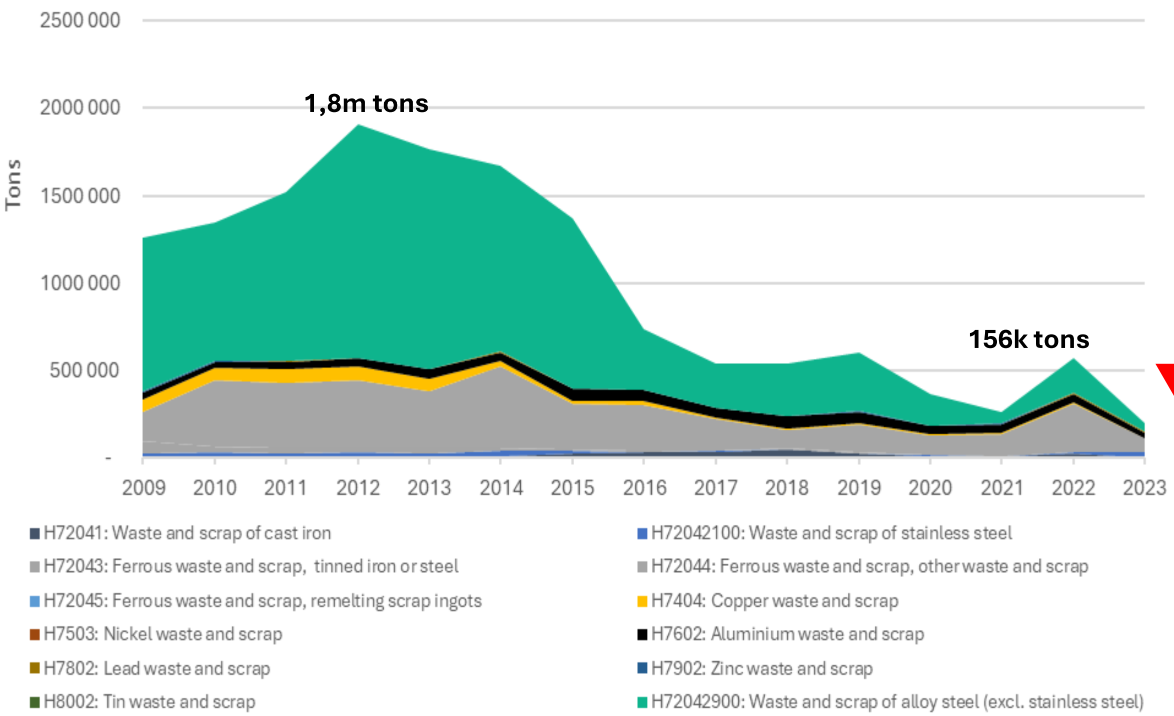
▼ **Declining Formal Employment:** 15,500 (2010) → 9,600 (2023).

Declining Informal Employment: 90,000 waste pickers' jobs & livelihoods threatened;

municipalities losing landfill savings due to reduced collection activities

Formal employment - recycling of metal waste & scrap industry

SA volume of scrap exports, 2009 – 2023 (tons)



Source: SARS tax statistics

▼ **Reduced Exports and Earnings:**

Volume of ferrous waste & scrap exports: 1.8m tons (2012) → 156,400 tons (2023) ≈ **-91%**

Value of ferrous waste & scrap exports: R5.9bn (2012) → R1.6bn (2023).

Impact of tax policies on metal scrap recycling industry:

Lost opportunity costs due to reduced scrap exports

Tax policies → Reduced scrap exports → Lower revenue → Weaker recycling industry

LOST TURNOVER DUE TO POLICIES → **-R13,5 billion**

MISSED EXPORT REVENUE →

Scenario	Estimated lost revenue due to policies – *SA recyclers could have earned:*
If exporting 2 million tons of ferrous scrap *(@ SA 2023 prices)*	**R20 billion**
If 70% of all scrap had been exported	**R35 billion**

Lower Domestic Prices vs. Lost International Revenue

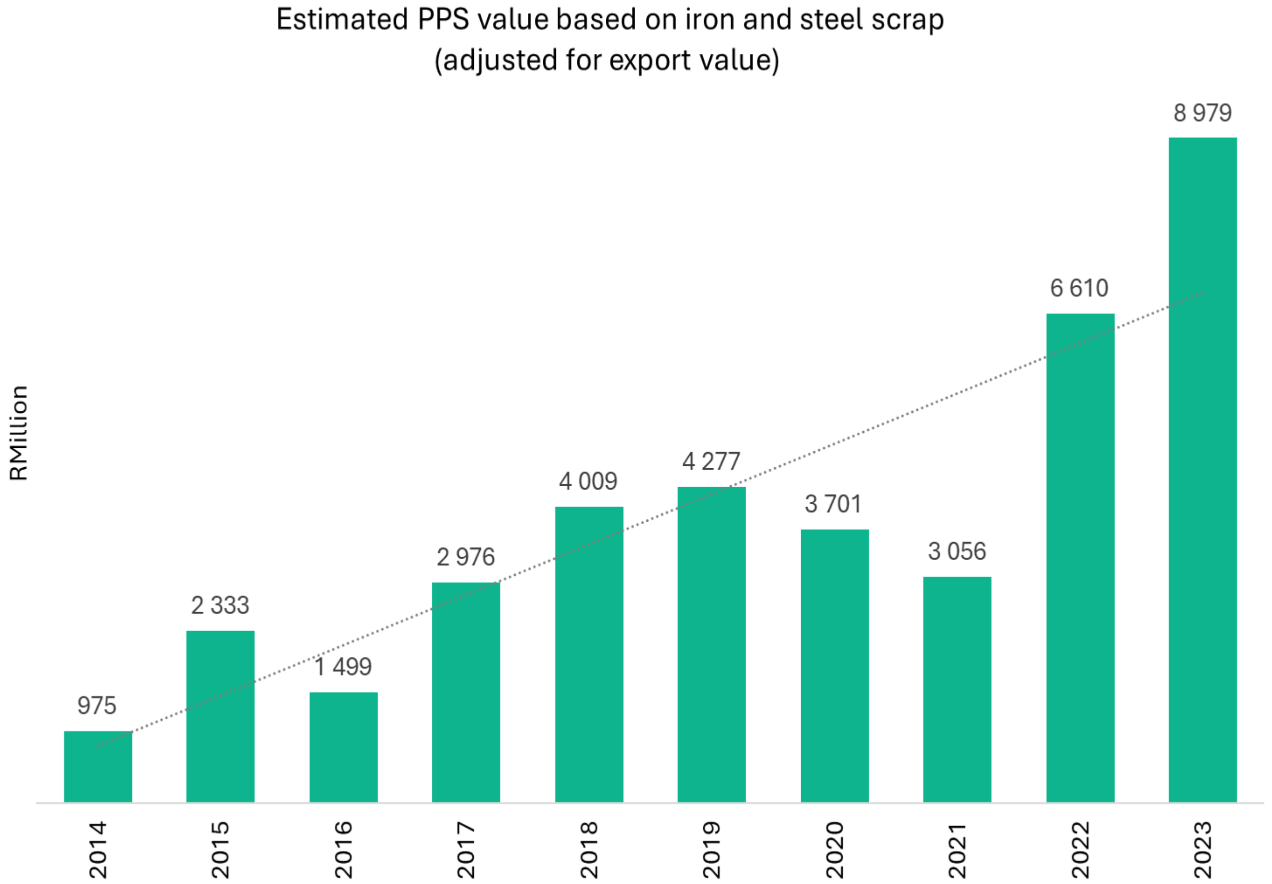
- **Domestic mini-mills** – as primary *large-scale users* of scrap - **benefit from lower scrap prices**.
- Recycling industry loses out on revenue from higher-paying international markets.

POLICY IMPACT → **PPS & scrap export taxes limit exports, weakening SA's ability to compete in global scrap market.**

PPS Discount Value (~ Subsidy): Winners & Losers

PPS enforces discount on local scrap prices = reduces cost of scrap for domestic buyers

PPS "discount value" for scrap surged: <R1bn (2014) to R9bn (2023) ~ **shifting earnings away from scrap suppliers and towards mini-mills.**



Source: SARS, Stats SA, own calculations

Who Loses? (Reduced Earnings)

- **Scrap Collectors & Waste Pickers** – Lower prices for collected scrap.
- **Scrap Metal Dealers** – Reduced revenue due to local price discounts.
- **Industries Generating Scrap** – Manufacturing, auto, construction sectors earn less from selling scrap.
- **Primary Steel Producers** – Face unfair competition as mini-mills get cheaper inputs.

Who Wins? (Cost Savings = Higher Earnings)

Mini-Mills - rely heavily on scrap as their primary input:

Benefit from lower scrap prices, reducing input costs & boosting profitability.

Unintended consequences of PPS & scrap export tax policies: **UNEVEN PLAYING FIELD**

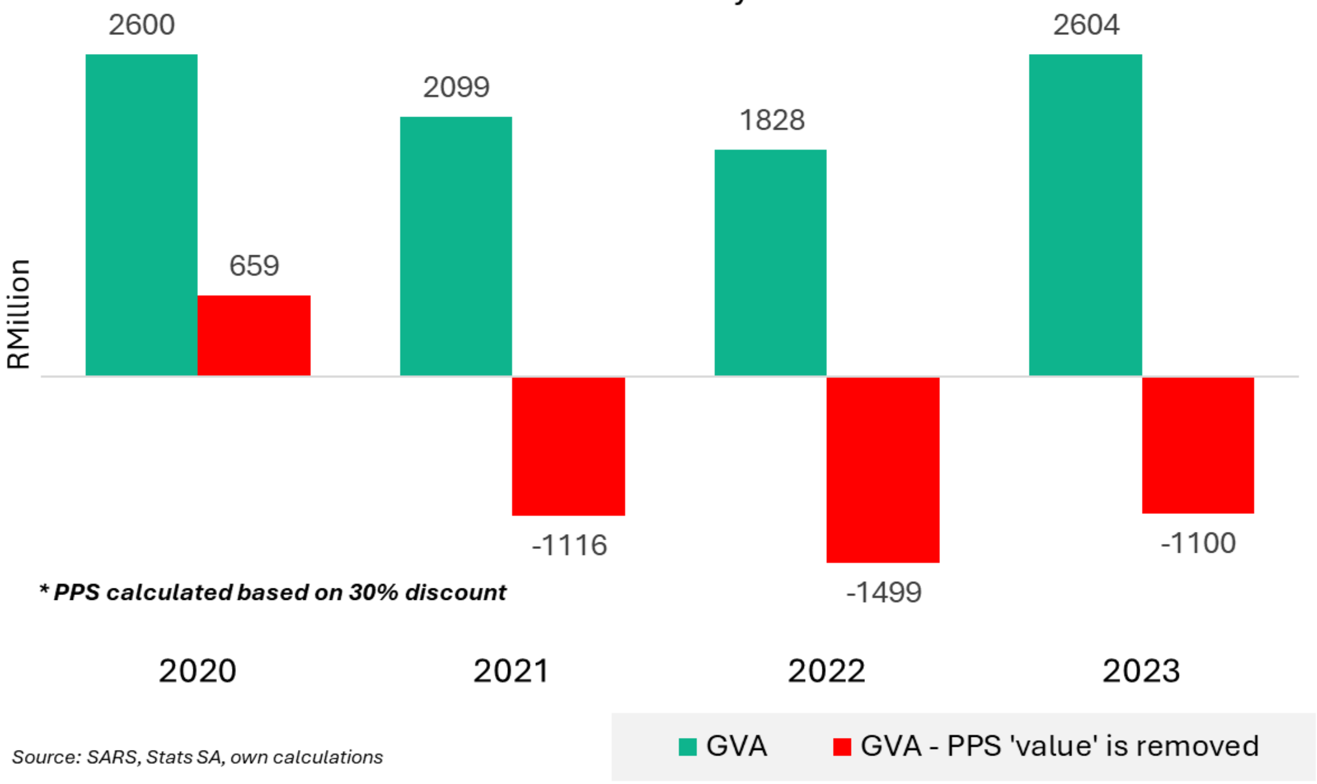
POLICY IMPACT ON MINI-MILLS

Without PPS 'subsidy': GVA & GOS turns negative.

≈ **PPS acts as financial cushion for mini-mills' profitability & viability** despite their decreasing output & uncompetitive operating conditions.

≈ **Mini-mills depend heavily on PPS subsidies to remain competitive.**

Estimated direct economic contribution (GVA) of mini-mills *vs.* GVA if PPS* 'subsidy' is removed



PPS calculated based on 30% discount

Source: SARS, Stats SA, own calculations

IMPACT ON PRIMARY STEEL PRODUCERS /AMSA

- Relies more on **unsubsidised raw materials** (e.g. iron ore) than on scrap
- Rising **electricity** & **raw material costs** reduce profitability

≈ **Tax policies have minimal impact** - do not reduce production costs

MARKET DISTORTION: Unfair Advantage to mini-mills

Lower input (scrap) costs for mini-mills due to PPS

Estimated PPS 'subsidy'/savings = R4.2bn - R6.4bn (2023)

Export tax exemptions on low-value products (e.g., billets) allow mini-mills to sell at even lower prices

≈ **Needs of primary producers & metal waste collectors are neglected.**

Other consequences of PPS & scrap export tax policies

Quality Gap: formal sector

Mini-mills serve primarily informal sectors

vs.

AMSA's Newcastle plant = SA's ***only*** fully integrated mill producing high-quality products, meets required quality standards for formal sector (auto, mining, manufacturing, construction ≈ <u>80% steel demand</u>).

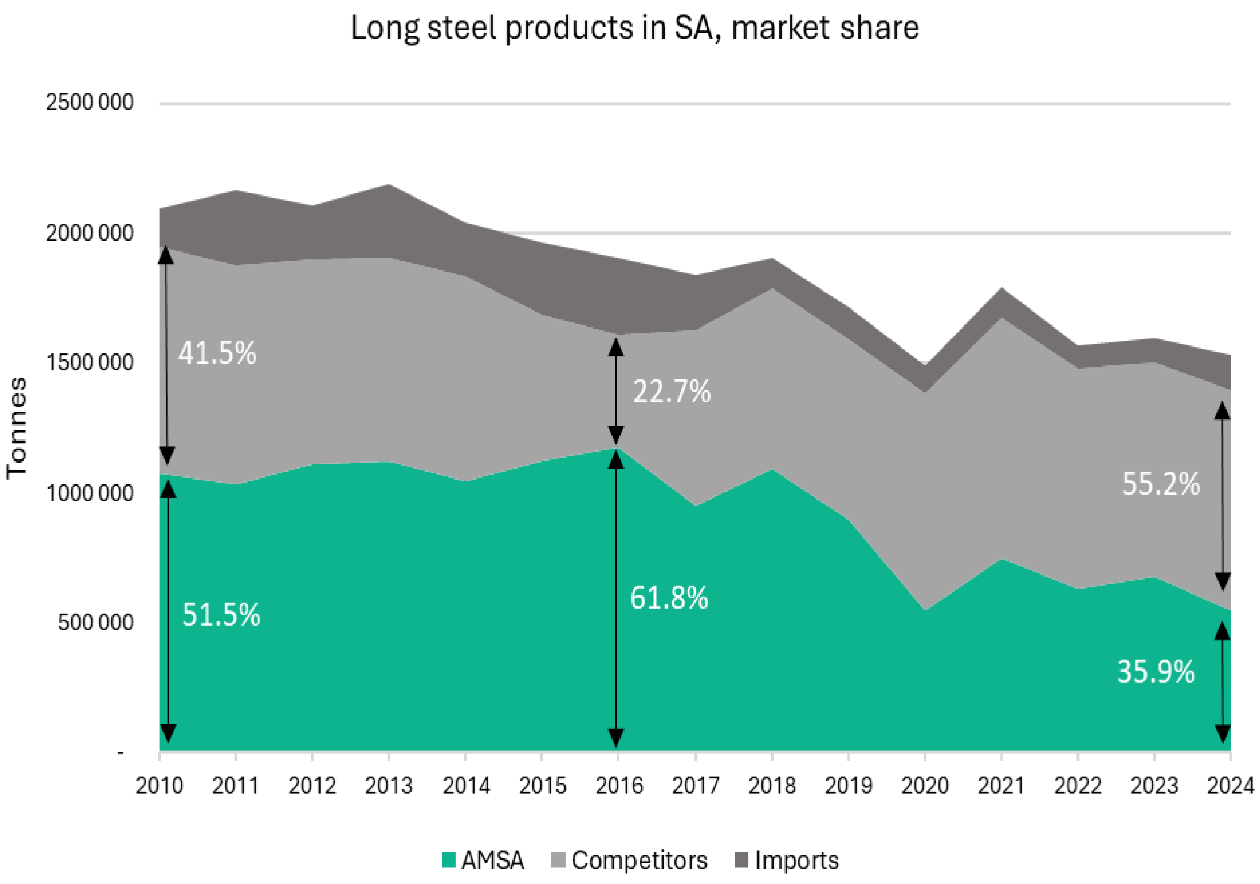
Overcapacity

Too many sub-economical mini-mills in oversaturated market →

increased likelihood of major closures →

destabilising the steel industry in South Africa

Newcastle Mill's market share declined since PPS (2013)



Impact of tax policies – closure of Newcastle plant

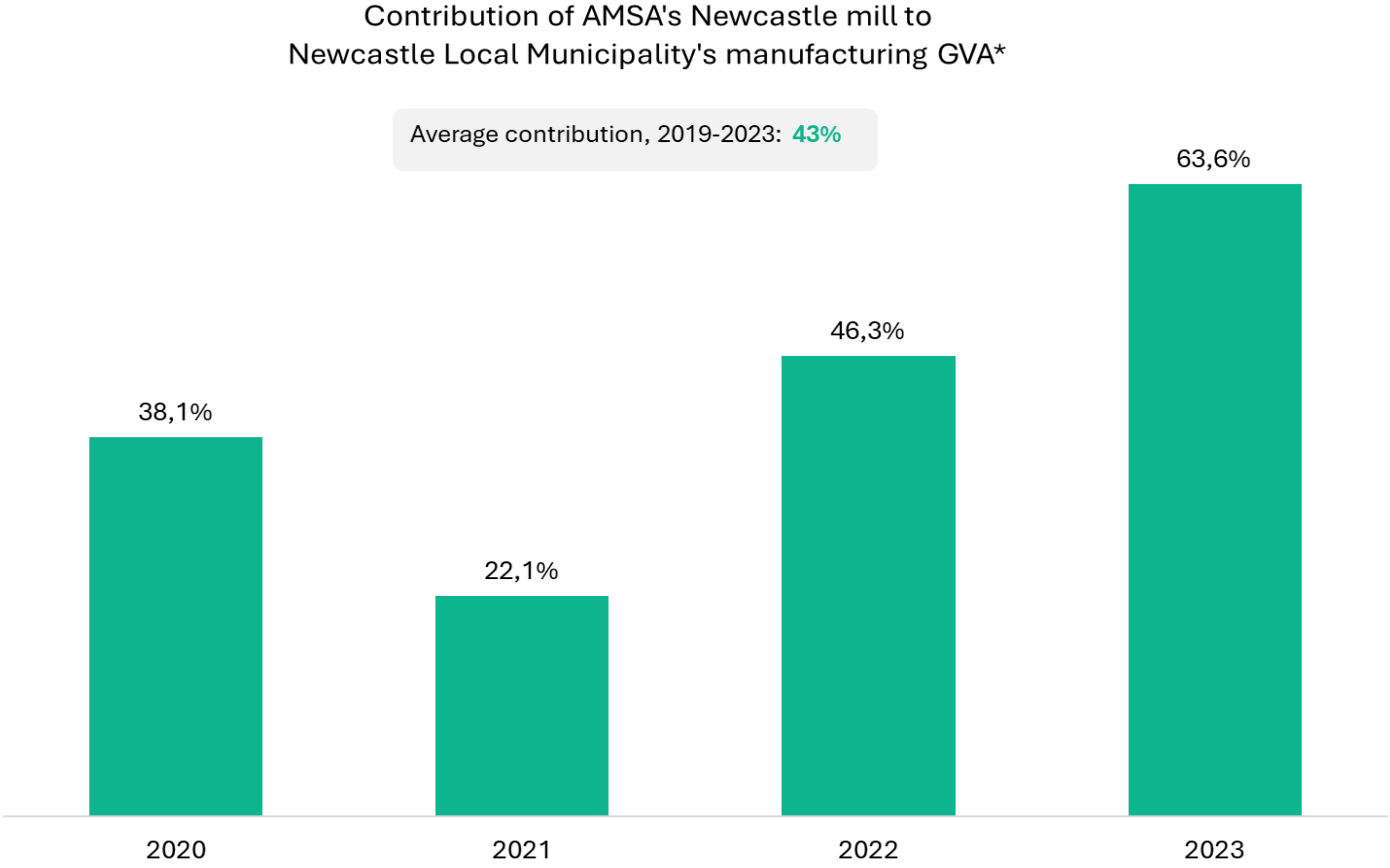
Loss of GVA & Regional Economic Stability

-R3.5bn GVA loss

~ -**11.4%** of Newcastle's total GVA, -**64%** of Newcastle's manufacturing GVA.

Impact on SA Manufacturing

Newcastle Works accounts for **11% of SA's basic iron & steel output** - closure would cripple national steel supply & regional economy.



Source: AMSA, Quantec

Impact of tax policies – closure of Newcastle plant (continued)

Supply Chain Disruption

Closure halts 35% of SA's long steel supply, disrupting key industries.

Loss of multiplier effect impacts upstream & downstream industries:

construction, auto, mining & energy, transport & logistics etc.

Steel Production & Industrial Competitiveness

~30% of SA's steel is *unique* to AMSA, with **no local alternative.**

Reliance on costly imports weakens manufacturing & localisation efforts.

Impact on Newcastle's economy

-R859m in lost wages **(~ -35%** of Newcastle's manufacturing wage bill).

-R3.6bn in lost local procurement, crippling SMMEs & vendors.

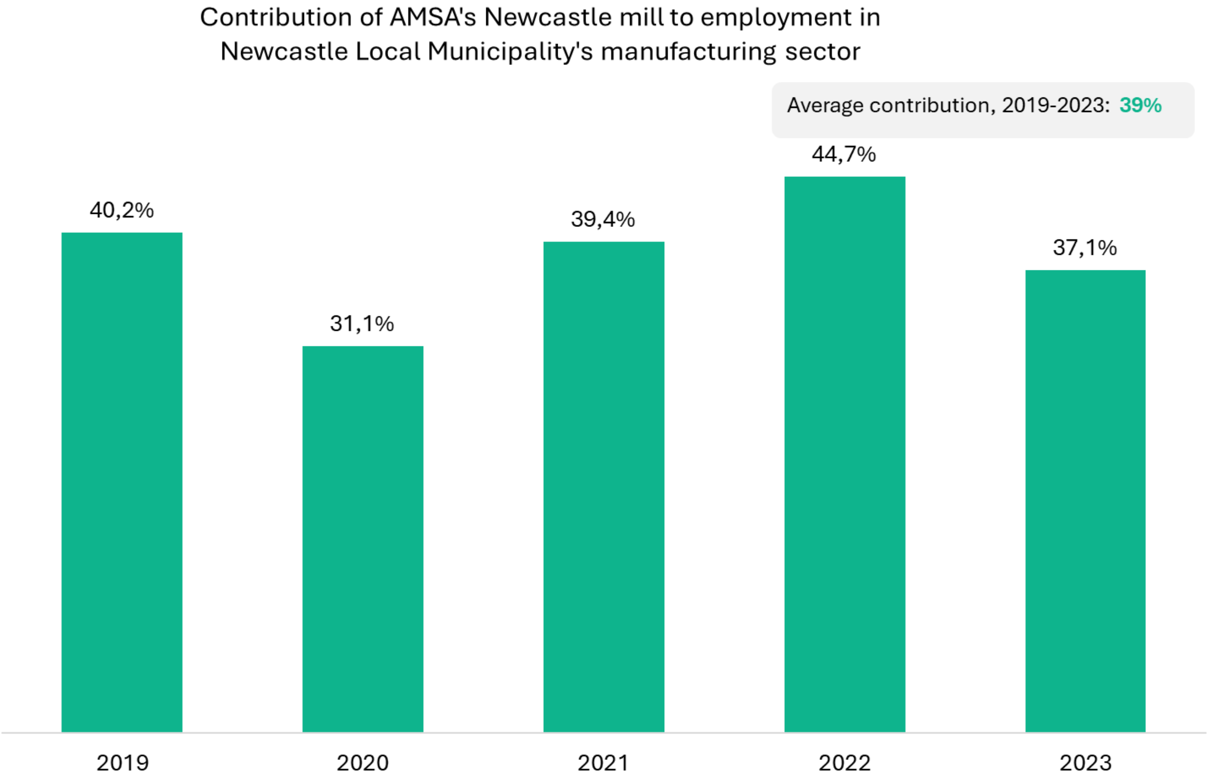
-R17.4m in lost CSI (education, infrastructure & community development).

Employment Impact

-3,400 direct jobs lost

~ 60,000-80,000 upstream & downstream job losses

Newcastle's unemployment crisis worsens, with **-37% of formal manufacturing jobs gone**.



Source: AMSA, Quantec

Up- and downstream industries that will be impacted by Newcastle Plant's closure

Upstream	Core	Downstream
Raw material/input suppliers	**Primary Steel production**	**Sales and exports: industries that use steel as a key input for production or construction**
Mining Industry: Iron ore (primary raw material for steel production); coking coal, limestone; manganese and other alloy metals; coal Electricity (Eskom) Natural gas Industrial gases (oxygen, nitrogen, etc.) Water Transportation and fuel Telecommunication services Harbour and port charges Regulatory charges **Equipment and Machinery Suppliers:** Heavy industrial equipment such as furnaces, conveyors, and cranes. Spare parts, tools, and technology for operations and maintenance. Refractories **Transport and Logistics:** Rail and road networks for transporting raw materials to mills. Ports and shipping for imported inputs or exporting raw materials.	Blast furnace operations (ironmaking) Basic oxygen furnace (steelmaking) Sinter plant (iron ore agglomeration) Casting blooms and billets Rolling (hot and cold processes) Heat treatment and finishing processes Quality control and testing By-product management (slag, tar).	Finance, business services, telecommunication, real estate, and insurance Warehousing, distribution, stockyard and logistics Transport of finished products (rail and road) Logistics providers (freight and shipping) Harbour and port charges; Regulatory charges; Fuel Technology/IT Local sales to manufacturers Exports to regional and international markets Downstream value addition (galvanising, painting, etc.) **End users:** • Construction and Infrastructure: Structural steel and reinforcing steel (rebar) for buildings, bridges, dams, and other infrastructure • Automotive Industry: High-quality safety critical steel for vehicle bodies, engines, and components • Manufacturing: Machinery, equipment, and tools (e.g., industrial machines, agricultural equipment) • Consumer goods (appliances, furniture, packaging) • Energy Sector: Steel components for power plants, wind turbines, and pipelines • Infrastructure for oil, gas, and renewable energy sectors • Transport Sector: Railways (rails, wagons, and train bodies). Shipbuilding and aerospace (steel hulls, frames, and structural parts) • Fabrication and Metalworking: Steel used in workshops to create parts, frames, and custom components • Recycling Industry: Steel scrap is recovered, processed, and recycled into new products, creating a circular economy. • Agriculture • Mining, and mining equipment manufacturers

Adjacent/side-stream industries: industrial waste removal; transportation of finished goods & employees; catering; staff security; office cleaning services; laundry & uniform management; landscaping earthworks.

Impact of tax policies: summary

Estimated High level costs vs benefits of Maintaining and Scrapping PPS and scrap export policy

	Metal Waste and Scrap Collectors	Mini-Mills – WORST CASE SCENARIO	Primary Steel Producer – Newcastle Works
	Maintaining Current PPS & Scrap Export Policy	**Scrapping** Current PPS & Scrap Export Policy	**Maintaining** Current PPS & Scrap Export Policy
GVA Impact (direct)	**-R3.2bn**	**-R2.6bn** *if* all mini-mills close.	**- R3.5bn** *-11.4% of Newcastle's total GVA*
Employment Impact	**- 6,000 jobs** Thousands of informal waste picker jobs.	**- 4,500 jobs** *if* all mini-mills close.	**-3,400 direct jobs** ~ **-60,000–80,000** downstream jobs
Earnings/Wages	**-R1.8bn** (formal) Lower earnings for informal recyclers.	**-R1.7bn** *if* all mini-mills close	**- R860m** *~ -35% of Newcastle's manufacturing income.*
Procurement and Supply Chain Impact	Reduced contributions	**-R10.4bn** in intermediate consumption, *if* all mini-mills close.	**-R12.7bn** spending with up-& downstream companies **-R3.6bn** local procurement spending *(-R874m for regional SMEs).*
Community and Social Investment			**-R17m** community investment in Newcastle

* *Note: There is a very low probability of all the mini-mills closing*

Conclusion

Declining steel production due to rising costs, weak demand, competition from cheap imports.

Policies worsened the decline and distorted the market: PPS & scrap export tax have unintentionally **favoured mini-mills over primary producers** like AMSA, **deepening industry decline**.

Lower scrap prices hurt recyclers but help mini-mills.

CONSEQUENCES:

- **Job losses** – Newcastle Plant & recycling industry, downstream industries.
- Mini-mills gain **cost advantages**, while Newcastle Works faces high input costs.
- Reduced **GDP** contribution.
- Weakened **industrial competitiveness**.
- **Closure of AMSA's Newcastle plant** threatens KZN and Newcastle's economies and SA's manufacturing base.

URGENT ACTION REQUIRED

- Policy reforms needed to **balance support for recyclers, mini-mills, and primary producers** & prevent long-term economic harm to SA.
- Abolishing PPS & export tax would boost **competitiveness**, **align** production capacity with domestic demand, **reduce overcapacity**.
- Recalibrate policies to **level the playing field**.

THANK YOU FOR ATTENDING AND YOUR QUESTIONS.

For any other queries please contact Ilse

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