ECONOMIC IMPACT OF TAX POLICIES ON SOUTH AFRICA'S STEEL SECTOR AND ECONOMY

January 2025

ECONOMETRIX

INDEX

List of acronyms and abbreviations

AfCFTA	African Continental Free Trade Area
AFS	Annual Financial Statistics
AMSA	ArcelorMittal South Africa
ASU	Apparent steel use
dtic	Department of Trade, Industry and Competition
DM	District Municipality
EU	European Union
GVA	Gross value added
GDP	Gross domestic product
IDC	Industrial Development Corporation of SA
ITC	International Trade Centre
LM	Local Municipality
PPS	Price Preference System
SAISI	South Africa Iron and Steel Institute
SAM	Social Accounting Matrix
SEIFSA	Steel and Engineering Industries Federation of Southern Africa
SUT	Supply and Use Tables
SARS	South African Revenue Service
WSA	World Steel Association
YTD	Year-to-date

INTRODUCTION

South Africa's steel industry, once a continental leader and a cornerstone of the country's industrial base, has experienced a prolonged and significant decline over the past two decades. This trend reflects broader patterns of **deindustrialisation** and stagnation in the manufacturing sector, which have had profound implications for economic growth, employment, and regional trade. From its peak in 2006, steel production has almost halved.

This report, leveraging our model based on Annual Financial Statistics and Arcelor Mittal SA data, explores the structural challenges underpinning this decline, including rising production costs, inefficiencies at state-owned enterprises, weak domestic demand, and heightened competition from low-cost imports.

It also assesses **the policy environment**, particularly the effectiveness of measures such as the Price Preference System (PPS) and the export tax on scrap metal, in addressing the sector's challenges. While these interventions have sought to support local steel production, they have **introduced market distortions that disproportionately benefit mini-mills** while further disadvantaging traditional primary producers beneficiating South African iron ore.

These market distortions are particularly concerning, especially given the South African **government's repeated declarations of steel as a strategic sector**, including in the Steel Industry Master Plan and other policy statements.[1]

President Ramaphosa has emphasised the importance of the steel industry in driving industrialisation, and key ministers have highlighted the imperative of transforming South Africa's mineral economy from "pit-to-port" into "pit-process-port" to ensure greater local beneficiation and economic benefit.

The President stated: *"The steel sector is at the heart of our economy, as it has a **significant multiplier effect and is one of largest job creators in the manufacturing sector**. Our infrastructure drive should be the catalyst that propels its recovery and growth. **We are determined to build a local steel sector that is strong, competitive and well-positioned for the future.**"*[2]

Against this backdrop, the report **highlights the urgent need for a recalibrated policy approach** that levels the playing field for all industry players. Such an approach must consider the trade-offs involved, including the potential closure of inefficient mini-mills, job losses in recycling, and the risk of reduced production capacity at primary steelmakers. At the same time, it must prioritise measures to stimulate demand, improve operational efficiency, and enhance South Africa's position in regional and global steel markets.

This report and model aim to provide actionable insights for fostering a sustainable, competitive, and job-creating steel sector that aligns with South Africa's broader industrial policy objectives.

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[1] *Department of Trade, Industry and Competition (the dtic).* Steel Industry Master Plan. https://www.thedtic.gov.za/wp-content/uploads/Steel_Industry_Master_Plan.pdf
[2] *The Presidency. President Ramaphosa Welcomes Constructive Engagement with the Steel Sector*. https://www.thepresidency.gov.za/president-ramaphosa-welcomes-constructive-engagement-steel-sector.

EXECUTIVE SUMMARY

This report assesses the ongoing decline in South Africa's steel production and the broader implications for the national economy, with a focus on structural challenges, policy interventions, and their limited effectiveness and the unintended consequences harming the South African economy in the medium term.

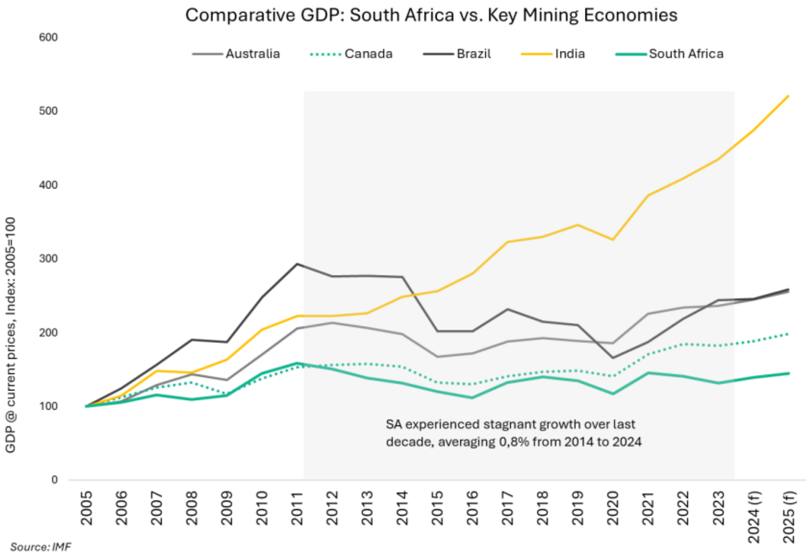
Once a leader in Africa's steel production and a prominent global player, South Africa's output has decreased significantly over the past two decades.

The report examines key issues such as competition from low-cost imports, rising production costs, and the role of government policies like the Price Preference System (PPS) and the export tax on scrap metal.

Declining Steel Production

South Africa's crude steel production has fallen from 9.7 million tonnes in 2006 to 4.7 million tonnes in 2024. This represents nearly a 50% drop in production, contributing to a decline in South Africa's global steel market share, from 0.8% in 2006 to just 0.3% in 2024.

In contrast, global steel production has risen, driven largely by China's rapid industrialisation and increasing demand. Local steel production has also been hampered by weak domestic demand, stagnant economic growth (see chart below), and a 50% surge in steel imports since 2018, all of which have further weakened the competitiveness of local producers. Escalating production costs, including higher prices for electricity, labour, and essential raw materials like iron ore, have placed additional strain on the sector.



Although South Africa is a significant producer of iron ore, logistical inefficiencies (e.g. Transnet) and global price fluctuations continue to drive up input costs for steel manufacturers. Moreover, the rising costs of electricity and raw materials have increasingly undermined the sector's competitiveness.

Another key factor contributing to the global increase, compared to South Africa's decline, is that while over 64 countries have implemented protectionist measures, South Africa remains one of the least protected markets, leaving its steel industry highly vulnerable.

Consequences of South Africa's Declining Steel Output

The challenges facing the South African steel industry, including rising costs, increasing imports, and limited demand, have led to a decline in steel production, which in turn has significant implications for the economy:

Impact on GDP: The basic iron and steel manufacturing sector's contribution to GDP has fallen from 0.8% in 2010 to just 0.3% in 2023.

Job Losses: Formal employment in South Africa's basic iron and steel industry has declined sharply over the past 15 years, decreasing by 46% from 50,488 employees in 2009 to just 25,616 in Q3 2024. This contrasts with the steady growth in overall formal employment across the country during the same period. Key job losses in the industry:

- **24,872 jobs lost** between Q3 2009 and Q3 2024.
- **7,477 jobs lost** in the past decade **following the introduction of the PPS tax policy** in Q4 2014, including the closures of Evraz Highveld Steel (2015) and ArcelorMittal SA's Saldanha plant (2020).
- **3,400 potential job losses** with ArcelorMittal's Newcastle plant planned closure.

Economic and Trade Impacts: Reduced steel output lowers export revenue, weakens South Africa's industrial base, and increases dependency on imported steel products, exposing the economy to global market fluctuations.

Infrastructure and Growth Challenges: The steel industry's decline undermines infrastructure development, raises costs, delays projects, and reduces its contribution to GDP.

Weakened Regional Trade Potential: South Africa's diminishing steel output limits its ability to capitalise on trade opportunities within Africa, especially under the African Continental Free Trade Area (AfCFTA), despite Africa's high reliance on steel imports.

The far-reaching consequences highlight the urgent need for interventions to stabilise the steel sector and protect its role in the economy.

Policy Interventions: Price Preference System (PPS) and Export Tax

The South African policy environment is fragmented and does not provide a supportive ecosystem for the industry to thrive.

The PPS, introduced in 2013, mandates that scrap metal exporters sell material to local producers at discounted rates, benefitting smaller, scrap-based mini-mills at the expense of primary steel producers like AMSA.

The export tax, introduced in 2021, aimed to replace the PPS and limit scrap metal exports but has failed to address the broader structural issues, such as rising costs and competition from cheaper imports, especially from China.

The PPS and Export Tax policy has had **unintended consequences**, leading to **overcapacity** in South Africa's steel industry. The country's steelmaking capacity of 10.5 million tonnes annually far exceeds domestic demand of just 4.2 million tonnes, with government-supported mini-mills exacerbating the oversupply issue.

These **mini-mills**, which use scrap steel, primarily serve *informal* industries and **struggle to meet the quality standards required by formal sectors** such as automotive, mining, manufacturing, and construction and infrastructure, which together account for approximately 80% of South Africa's steel demand.

AMSA's Newcastle plant is South Africa's sole fully integrated mill that converts iron ore into long steel products and is **the only local mill producing the full range of high-quality products that meet these required quality standards.** However, the plant has seen its market share decline since the PPS was introduced in 2013, favouring scrap-based mini-mills.

While the PPS was intended to promote affordable scrap supply to foundries and assist in job creation, it has instead led to reduced scrap processing, job losses, and the proliferation of sub-economical mini-mills in an oversaturated market, **destabilising the industry**. This has resulted in **closures and potential and imminent shutdowns**, highlighting the need to address overcapacity and **reassess the PPS policy to restore balance and sustainability**.

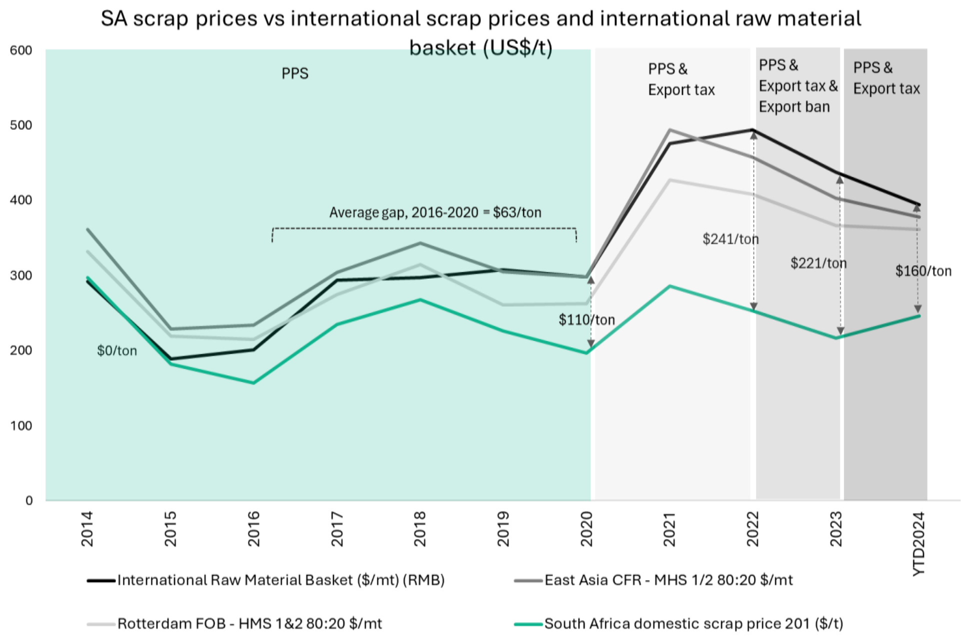
Economic impact of policy on the scrap industry

The volume of all scrap metal exports, according to SARS data, has plummeted from 1.9 million tonnes in 2012 to under 200,000 tonnes in 2023, with export value dropping from R10.8 billion in 2013 ($1.29 billion) to R2.7 billion in 2023 ($148.2 million).

Export volumes of ferrous waste and scrap decreased from 1.78 million tonnes in 2012 to 156,427 tonnes in 2023 (a decrease of 91%), while the value of ferrous waste and scrap decreased from R5.9 billion in 2012 ($724 million) to R1.6 billion in 2023 ($85.9 million).

The introduction of the PPS in 2013 and export tax policies since May 2020 has led to a sustained suppression in South African scrap metal prices, which have remained below international levels since 2016.

Notably, the price gaps widened significantly with multiple policy implementations of the export tax and ban, in addition to PPS, particularly in 2022, when the gap widened to $241/ton, and in 2023, when it remained significant at $221/ton. In contrast, the gap was much smaller at an average of $63/ton between 2016-2020. With the removal of the scrap export ban, the gap was reduced to approximately $160/mt in 2024 but still remains significantly disruptive and distortionary to the fair price of scrap in South Africa to the detriment of the scrap collection and generation sector.



While lower scrap prices benefit foundries to a very limited extent, these policies raise concerns about the sustainability of upstream industries like primary steel production, which could face long-term viability challenges, along with potential impacts on the health of the scrap collection and processing industry.

Economic impact of policy on the recycling industry – opportunity cost

PPS and export tax policies have imposed significant opportunity costs on South Africa's recycling industry, suppressing economic activity and causing:

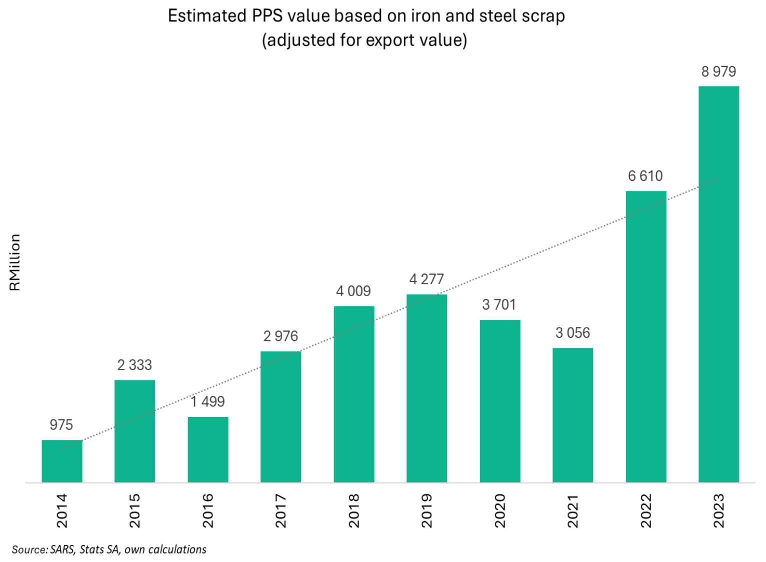
- **Declining Employment:** Formal employment in the recycling sector has dropped sharply, from over 15,000 in 2010 to just over 9,600 in 2023. Informal waste pickers, who are vital to the recycling economy, have also been adversely affected.
- **Reduced Exports and Earnings:** The value of scrap metal exports as a share of the industry's turnover has plummeted from over 90% in 2012/13 to below 10% in 2023.
- **Lost Economic Potential:** Without these policies, output, value-added, employee compensation, and gross operating surplus in the recycling industry would have been higher.

  While the recycling industry's turnover has grown from R11.3 billion in 2012 to R35.95 billion in 2023, this growth is not reflective of export performance, which has declined significantly due to policy interventions.

- **Decrease in turnover:** It is estimated that the turnover in the recycling of metal waste and scrap sector could have been *R13.5 billion higher* in 2023 if it weren't for the scrap policies. This excludes opportunity costs related to a potential increase in the supply of scrap metal volumes if the scrap metal prices were higher (if no PPS discount was applicable).
- **Opportunity costs from scrap export reductions**: If an additional two million tonnes of ferrous waste and scrap (iron or steel) had been exported at the average 2023 South African export prices, an *extra R20 billion worth of scrap metal could have been generated.* This figure would be even higher if international scrap prices were applied. These lower prices reflect the impact of tax policies on South Africa's competitiveness and the resulting loss from policy-driven value transfer.
- **Lost Export Earnings and Potential Opportunity Costs**: Scrap exports have significantly decreased, resulting in missed earnings from international sales. If, for example, 70% of all types of metal scrap were exported, South Africa *could have earned over R34.6 billion in 2023* - an amount exceeding the total turnover of mini-mills.

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**

- **PPS Discount Value and Its Impact on Earnings**: The PPS discount value for scrap has risen from under R1 billion in 2014 to nearly R9 billion in 2023, reducing earnings for industries that generate metal scrap**,** scrap collectors and waste pickers.



- **Impact on Informal Waste Pickers**: Policies affect informal waste pickers, vital for South Africa's recycling economy, reducing their income and employment.

- **Impact of Export Tax on Iron and Steel Exports**: The export tax on iron and steel exports dropped from R624 million in 2022 to R317 million in 2023.

Impact of Mini-Mills and PPS Subsidies

The mini-mills' estimated contribution to the economy in 2023 included a GVA of R2.6 billion at basic prices and a total output of approximately R13 billion at basic prices.

The mini-mill sector has benefitted significantly from the **PPS, which has acted as a subsidy**, maintaining profitability despite otherwise uncompetitive operating conditions.

Based on production volumes, the PPS policy may have resulted in an estimated 'value' discount of between R4.15 billion and R6.4 billion in 2023.

When the 30% PPS subsidy is removed, mini-mills face negative operating surpluses and reduced value-added, highlighting the disproportionate benefits that smaller mills receive under the current policy structure.

This suggests that the PPS subsidy plays a crucial role in maintaining the profitability and viability of the mini-mills.

Mini-mills that primarily use scrap as input benefit unfairly from lower input costs due to PPS and export tax incentives, compared to primary steel producers that rely on unsubsidised iron ore for high-quality steel production.

Impact of policy – the closure of the Newcastle plant

The overcapacity in South Africa's steel industry, compounded by **policies like the PPS and Export Tax, has increased** the **likelihood of major facility closures, including AMSA's Newcastle Works**.

The growing market imbalance and rising costs for primary producers have made it difficult for established mills to remain profitable.

The imminent closure of the Newcastle plant – a cornerstone of the local economy – will have catastrophic social and economic repercussions, not only for Newcastle but also for KwaZulu-Natal and South Africa as a whole.

Given South Africa's unsustainable unemployment levels and economic vulnerabilities, the closure would exacerbate the country's socio-economic challenges and have far-reaching consequences on employment, poverty, and industrial competitiveness. The devastating potential losses are listed below.

- **Loss of GVA and Regional Economic Stability.** The closure of AMSA's Newcastle plant would lead to the loss of R3.5 billion in GVA (Gross Value Added), representing 11.4% of Newcastle's total GVA and two-thirds (64%) of its manufacturing GVA. This would significantly erode the region's economic base, leaving a substantial void in local economic activity. The plant's role as a driver of local economic activity and an anchor for the regional economy would disappear, along with the multiplier effect generated by Newcastle Works, which supports numerous industries through its backward and forward linkages. This loss would further destabilise the region's already vulnerable economy.

- **Impact on SA's Manufacturing Base**. The closure of AMSA's Newcastle plant would result in the loss of a key contributor to South Africa's basic iron and steel manufacturing base. In 2023, Newcastle Works accounted for 11% of the country's total basic iron and steel manufacturing and contributed 64% of Newcastle Local Municipality's total manufacturing output.

  Its closure would deliver a devastating blow to both the national steel industry and the local economy, leaving a significant gap in production capacity and economic activity.

- **Disruption to Supply Chains and Inter-Industry Linkages.** The plant's closure would disrupt the supply chain and dismantle extensive inter-industry linkages across primary, secondary, and tertiary sectors, halting its support for 35% of the country's long steel demand and the mineral beneficiation process that increases the value of iron ore tenfold.

  The loss of its significant multiplier effect would halt downstream production and disrupt a vast ecosystem of suppliers, transporters, manufacturers, and end-users. Key industries such as construction and infrastructure, automotive, mining, and energy would face severe setbacks, jeopardising downstream operations that support 290,000 jobs nationwide.

  Additionally, the loss of logistical services essential for transporting raw materials and finished goods would further exacerbate economic disruptions and ripple effects throughout the supply chain.

- **Unique Steel Production and Industrial Competitiveness.** Approximately a third of the steel produced in SA is unique to ArcelorMittal and is not manufactured by other mills in the country.

  South Africa's already fragile manufacturing sector would face further declines as these industries that rely on Newcastle's high-quality long steel (such as high-tech steels for the mining and automotive sectors) would be forced to rely on costly imports, eroding competitiveness and creating supply vulnerabilities.

The ripple effects would include a weakened localisation drive for the automotive sector, jeopardising projects like electric vehicles, potentially billions in annual economic losses, and the loss of thousands of jobs within the sector.

- **Weakening of South Africa's Industrial Base.** The loss of local steel production capacity would weaken South Africa's industrial base, reduce export revenues, and increase reliance on imports, further exposing the economy to global market fluctuations.

  However, replacing Newcastle's output with imports is not a viable short-term solution due to high transport costs, supply chain challenges, and the unique specifications of locally developed steel products.

- **Employment Impact**: The loss of approximately 3,400 direct jobs would ripple across the value chain, resulting in an estimated 80,000 additional job losses in upstream and downstream industries. This would significantly affect Newcastle Municipality, where unemployment is already at critical levels (32% official rate, 43% expanded rate). Nearly 40% of formal manufacturing employment would vanish, exacerbating poverty and food insecurity for almost half the population. In 2023, Newcastle Works contributed 4.7% of Newcastle's total formal employment and close to 40% of manufacturing employment in the municipality.
- **Local Business Support**: Numerous local service providers, including transport, catering, and security businesses, would lose critical support. Thousands of families already facing limited alternative employment options in a municipality with a high dependency ratio of 51% would experience severe economic hardship.
- **Wage Loss**: The plant's closure would result in a loss of R859 million in wages (2023), resulting in a loss of 35.2% of Newcastle's manufacturing sector's wage bill, further destabilising the local economy.
- **Procurement and Local Economy**: The loss of R3.6 billion in local procurement spending, which accounted for 34% of AMSA's total procurement in 2023, would cripple local economic activity. This includes R874 million in support to 111 micro-enterprises and 195 vendors in the Newcastle region. Intermediate consumption valued at R12.7 billion, equivalent to 12.9% of the iron and steel sector's total intermediate consumption, would also be lost.
- **Corporate Social Investment (CSI)**: The termination of R17.4 million in CSI spending on education, infrastructure, and community development would undermine socio-economic progress in Newcastle.
- **Municipal and Government Burden**: The result would be increased government spending on social grants, unemployment insurance, and healthcare, alongside diminished municipal services for the local community.

Evidence-based argument for abolishing policies and levelling the playing field

Econometrix's modelling indicates that abolishing the PPS and export tax would have a *positive effect* on the broader steel industry, creating a more balanced competitive environment.

Reducing Market Distortions: The PPS has disproportionately benefitted mini-mills, leading to overcapacity in the long steel sector. Eliminating the subsidy would help align production capacity with domestic demand, reducing overcapacity in the long steel sector and allowing for a more efficient allocation of resources. This would benefit the bigger, traditional steel producers like AMSA, whose higher production costs cannot compete with heavily subsidised imports and mini-mills.

Competitive Pricing and Export Potential: By removing the export tax and allowing scrap metal exports to be priced at market rates, South Africa could boost the competitiveness of its recycling and steel industries. This would help increase revenue for the sector, support job retention, and create additional export opportunities.

The decline in scrap metal export volumes has limited foreign exchange earnings, and market-driven pricing would help unlock this potential.

Sectoral Recovery: Econometrix's models show that lifting the PPS and export tax could lead to a recovery in production and employment within the steel industry. Without market distortions, larger steel producers could better adjust pricing and production strategies, improving cost efficiency and increasing the sector's resilience to external market fluctuations.

Estimated High-Level Costs vs. Benefits of Maintaining and Scrapping PPS and Scrap Export Policy[3]

	Metal Waste and Scrap Collectors ***(~very high probability)***	**Mini-Mills** **Worst-case scenario** ***(~very low probability of all min-mills closing)***	**Primary Steel Producer – Newcastle Works** ***(~very high probability)***
	Impact of Maintaining **Current PPS & Scrap Export Policy**	**Impact of Scrapping** **Current PPS & Scrap Export Policy**	**Impact of Maintaining** **Current PPS & Scrap Export Policy**
GVA Impact (direct)	-R3.2bn	Potential - R2.6bn *if* all mini-mills close.	**- R3.5bn** ≈ -11.4% of Newcastle's total GVA
Employment Impact	Formal employment: **-6,000** (2010–2023). Tens of thousands of informal waste picker jobs lost.	Around 4,500 direct jobs could be lost *if* all mini-mills close.	**-3,400 direct jobs** ≈ **-4.7%** of Newcastle's formal employment ≈ **-37.1%** of Newcastle's manufacturing jobs ≈ **-60,000 to 80,000 downstream jobs**
Earnings/Wages	**-R1.8bn** compensation of formal employees Lower earnings for informal recyclers.	-R1.7bn in compensation of formal employees, *if* all mini-mills close	**-R859m** in wages (2023) ≈ **-35%** of Newcastle's manufacturing workforce income.
Procurement and Supply Chain Impact	Reduced contributions to local and regional recycling economies.	- R10.4bn in intermediate consumption, *if* all mini-mills close. Loss of value transfer to international consumers.	**-R12.7bn** spending with up-and-downstream companies (2023) ≈ **-12.9%** of iron & steel industry's intermediate consumption **-R3.6bn** in local procurement spending **-R874m** for regional micro-enterprises (SMMEs) and vendors.
Community and Social Investment	n/a	n/a	**-R17m** in CSI spending for host community in Newcastle.
Industrial Base Impact	n/a	Reduced financial viability of mini-mills; potential closures weaken the sector: -R13bn in output, *if* all mini-mills close	**-R12.9bn** in output: Weakening of SA's industrial base ≈ **-11%** of SA's iron & steel manufacturing ≈ **-64%** of Newcastle's manufacturing output.
Unique Steel/ Import Impact	n/a	n/a	Key industries will have to rely on costly imports for specialised steel; undermines SA's competitiveness.
Other	n/a	IDC could lose capital investments in mini-mills.	Disruption to supply chains in key sectors like construction, automotive, mining, and energy.

[3] *Further studies would need to be conducted to determine the net difference in economic impact pre- and post-policy.*

Conclusion

The South African steel industry faces significant challenges, including global competition, rising costs, and inefficiencies exacerbated by government policies like the PPS and the export tax on scrap metal.

Government policies like the PPS and scrap export taxes, designed to protect local producers, have had **unintended adverse effects**. These interventions have not fully addressed the underlying structural issues at play and have instead created market distortions that disproportionately benefit mini-mills, negatively impacting traditional steel producers.

These policies have led to lower scrap metal prices, reducing income for recyclers and workers while heavily benefitting mini-mills that rely on scrap as their primary input.

The recycling industry has seen significant **opportunity losses**, with reduced export revenue and declining employment in recycling.

Moreover, the policies have created an **uneven playing field**, with mini-mills enjoying lower input costs and export advantages over primary steel producers like Newcastle Works.

Rising electricity and raw materials costs have placed additional pressures on primary producers, while mini-mills remain reliant on PPS subsidies to stay viable.

Despite this, the output of mini-mills has declined, even though they retain jobs thanks to the subsidies. In contrast, Newcastle Works, a primary steel producer, faces increasing financial strain without benefitting from lower scrap prices.

To address these imbalances, policies must be revisited to support all three, i.e. recycling, mini-mills and primary producers equitably, focusing on boosting economic growth, reducing costs, improving efficiency, and fostering a competitive recycling and steel sector. This includes better support for infrastructure, revising the approach to import competition, and promoting downstream activities and export markets.

Econometrix's modelling suggests that abolishing these policies would restore a level playing field, stimulate demand, and help the sector regain competitiveness.

Recalibrating policies is essential for safeguarding the future of the steel industry. The South African steel industry would be better positioned to contribute to economic growth, support job creation, and enhance its role in global markets.

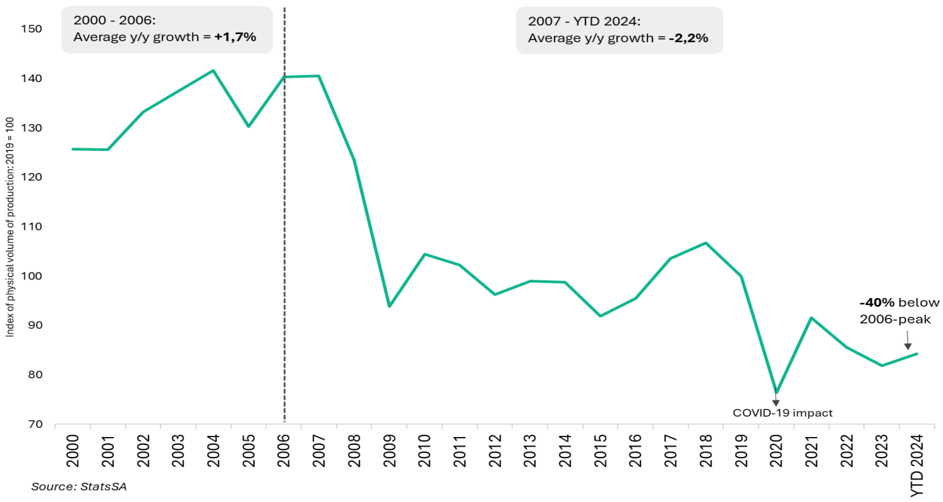
1. BACKGROUND – STEEL INDUSTRY

1.1 Declining Steel Production

South African steel production has almost halved since 2006. South Africa's crude steel production has been in decline since 2006 and has not yet returned to pre-2006 levels. Between 2007 and YTD 2024, the manufacturing production of iron and steel products contracted at an average rate of -2.2% (compared to growth of +1.7% in the preceding seven years). This reflects a prolonged and structural trend of deindustrialisation over multiple years.[4] Steel production is currently 40% *below* its 2006 peak – see Chart 1.

Chart 1

SA Manufacturing production: basic iron and steel products

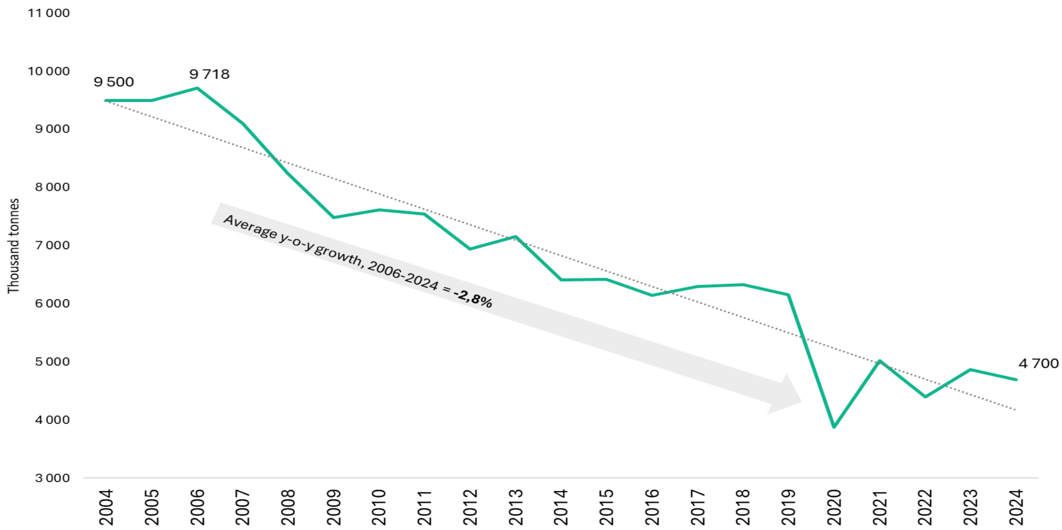


Source: StatsSA

In volume terms, South Africa's crude steel production has steadily declined from a peak of 9,7 million tonnes in 2006 to 4,7 million tonnes in 2024 – see chart below. In 2004, South Africa's steel industry ranked 20th globally, contributing 0.9% of world crude steel production and producing 57% of Africa's steel output. By 2024, South Africa had fallen to 29th place, accounting for 20% of Africa's steel output and just 0.3% of global production.

Chart 2

South Africa - volume of crude steel* production



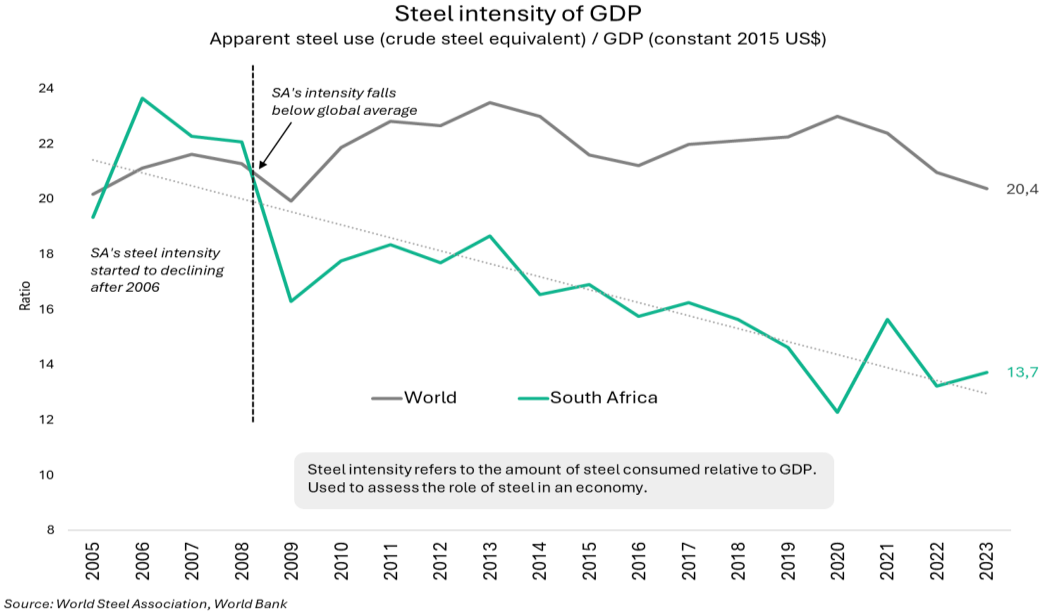
Source: World Steel Association

* Includes all qualities: carbon, stainless, other alloy

[4] *Source: SEIFSA, A Fundamental Rethink to the Approach of Industrial Policy for the Steel and Engineering Sector is Required, Nov 2024*

The stagnation in South Africa's crude steel sales reflects a persistent decline in the steel intensity of the country's GDP since 2006. Historically, South Africa's steel intensity was higher than the global average before 2007/2008, driven by industrial and infrastructure development.

Chart 3



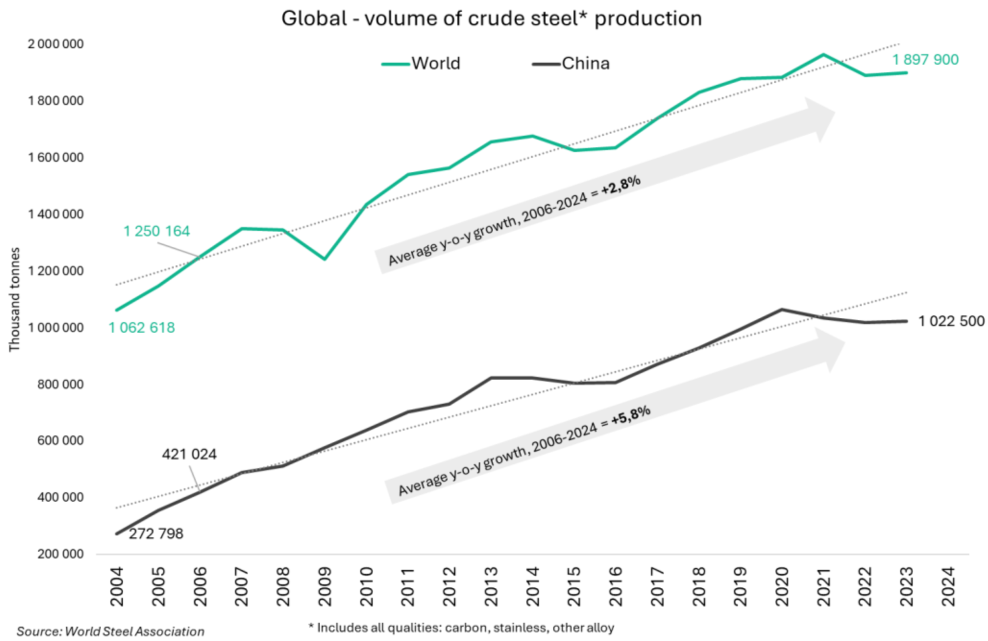
However, post-2008, steel intensity declined sharply, falling well below the global average (chart 3).

This decline points to structural challenges, including falling domestic production and demand, deindustrialisation, and a shift toward less steel-intensive sectors.

Unlike global trends, where steel intensity reflects moderate efficiency gains, South Africa's trajectory highlights deeper systemic issues such as stagnating manufacturing, weak infrastructure investment, and global competitiveness pressures on the steel industry.

The significant declining trend in South Africa's crude steel production contrasts sharply with global steel production, which has steadily risen from 1,25 million tonnes in 2006 to 1,9 million tonnes in 2024.

Chart 4



Between 2006 and 2024, the global steel industry grew at an average annual rate of +2.8%, while South Africa's steel industry contracted by an average of -2.8% over the same period (see Chart 2).

In contrast, China's steel production surged significantly, growing at an average rate of 5.8% (see Chart 4). Global steel production will be supported by new capacity, with major projects in Asia, North America, Europe, and the Middle East. Output is forecast to grow by 1.7% in 2025 and 1.5% in 2026, reaching just under two billion tonnes.

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

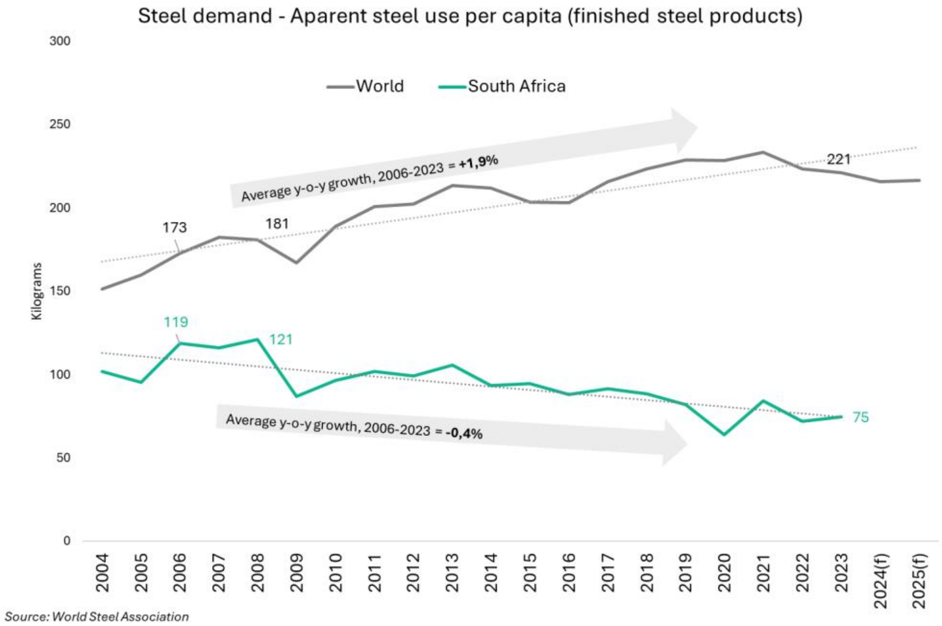
The divergence between the global growth in steel production and South Africa's decline can be explained by several factors:

a) **China's dominance**: Global steel production growth has been largely driven by China's rapid industrialisation, massive infrastructure projects, and its emergence as the world's largest steel producer and consumer. In contrast, South Africa's steel industry struggled to compete with cheaper imports, including those from China.

b) **Declining domestic demand**: SA's domestic steel demand weakened due to stagnant economic growth, a contracting manufacturing sector, and reduced investment in construction and infrastructure projects. South Africa's apparent steel use (ASU)[5] of finished steel products has decreased by 23.3% since 2006, when it reached 5.9 million tonnes, to 4.5 million tonnes in 2023.

   South Africa's ASU (of finished steel products) per capita for finished steel products has declined from a peak of 121.1kg in 2008 to just 74.5kg in 2023 – see chart below. In contrast, global ASU per capita has increased over the same period, rising from 181kg to 221.1kg.

Chart 5



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[5] *Apparent steel use (ASU) measures steel demand, which is expressed in volume terms as deliveries minus net exports of steel industry goods. Figures sourced from World Steel Association.*

c) **Increase in domestic steel production capacity but low capacity utilisation rates**[6]: Despite falling domestic consumption, South Africa's steel production capacity has increased by around 25% over the past decade. This has created an unsustainable situation, with producers facing significant financial strain, pressure on prices and margins and weakened balance sheets *(Source: SEIFSA)*.

According to SEIFSA, capacity utilisation rates among domestic mills and related subsectors are alarmingly low, averaging between 50%-55%, with some operating as low as 42%, which is unsustainable in the long term.

In an environment where production outpaces demand, mills are forced to ration capacity, often leading to plant shutdowns, retrenchments, or industry consolidation to balance supply and demand.

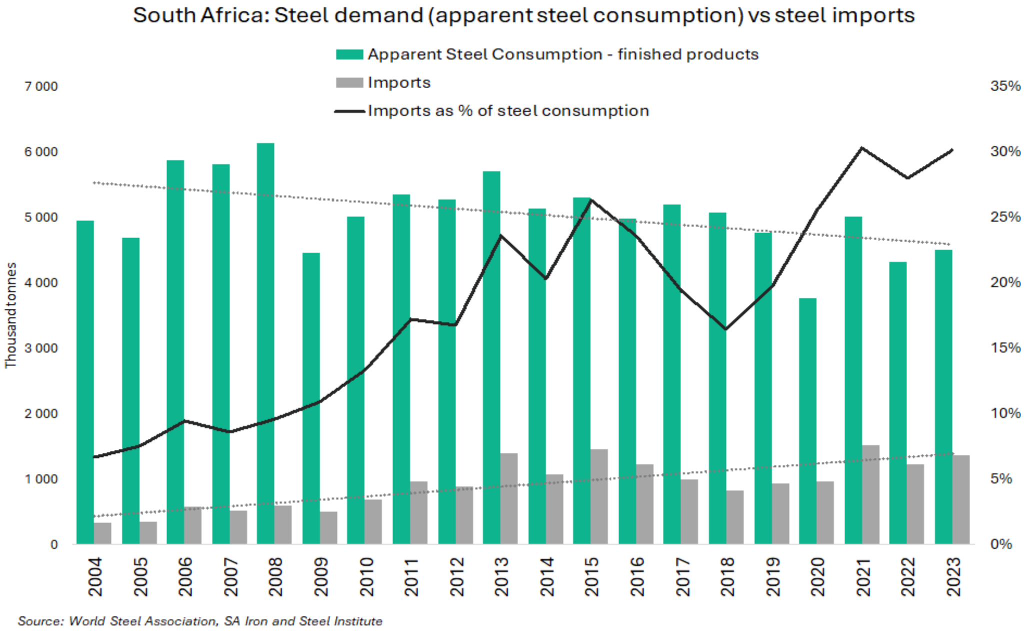
SEIFSA underlines that this highlights a critical issue: even where there is demand, it is not being directed toward local producers, further undermining the domestic industry.

d) **Surge in imports**[7]: Adding to this pressure, close to a third of domestic steel demand is being met by imports: imports now account for 30% of total consumption (compared to 7% in 2005), driven by global oversupply (~300 million tonnes) and aggressively priced steel flooding the market.

South Africa is experiencing a sharp increase in imports of primary carbon and alloy steel products, particularly from China, heightening concerns about market overstocking, especially in long steel products. Since 2005, steel imports have grown significantly at 11% on average.

This surge in imports threatens the domestic steel industry by diminishing demand for locally sourced raw materials and jeopardising production sustainability.

Chart 6



[6] *Source: SEIFSA, A Fundamental Rethink to the Approach of Industrial Policy for the Steel and Engineering Sector is Required,* Nov 2024
[7] *SA Iron and Steel Institute: Steel Matters, June 2024, https://www.saisi.org/wp-content/uploads/2024/07/Steel-Matters-June-2024.pdf*

Many imported products are sold at prices below the cost of raw materials, undermining local producers. The substantially lower Chinese steel prices (see charts below) place intense competitive pressure on South African manufacturers.

These low-priced imports not only distort the market but also contribute to overcapacity and the reduced utilisation of domestic production facilities, further weakening the local steel industry.

Chart 7

Cold-rolled coil steel prices

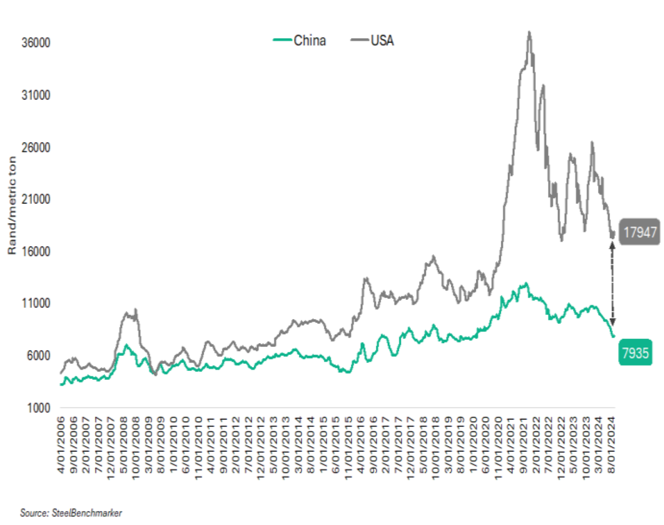
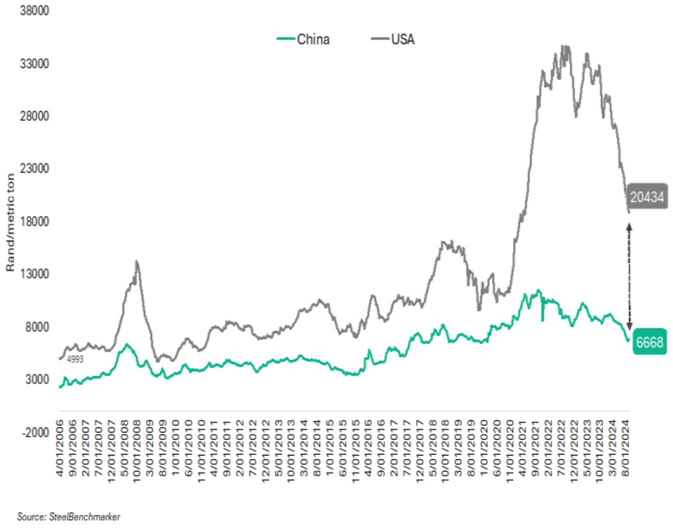


Chart 8

Standard plate steel prices



e) **Domestic structural challenges and rising costs**: Rising production expenses, including increasing input costs for electricity (see Chart 9), labour, and raw materials such as iron ore, have significantly eroded competitiveness.

Electricity costs for the basic iron and steel sector increased from less than R2.4 billion in 2010 to over R8.5 billion in 2023 (an increase of 256%) – see Section 4.1.

While South Africa is a major producer of iron ore, logistical inefficiencies and global price volatility (see Chart 10) still contribute to higher input costs for steel manufacturers.

Additionally, high transport and logistics costs, particularly inefficiencies in rail infrastructure and port operations, further burden the industry by causing delays and escalating expenses.

The inefficiencies within Transnet's rail network have forced ArcelorMittal to transport raw materials to its factories by road, significantly increasing costs.

AMSA is highly dependent on Transnet, the rail monopoly, for the transportation of 91% of the iron ore and 100% of the coking coal used at its Newcastle plant.

These challenges are compounded by soaring energy prices and an unreliable electricity supply, creating a difficult operating environment that is largely beyond the control of steel companies.

Chart 9

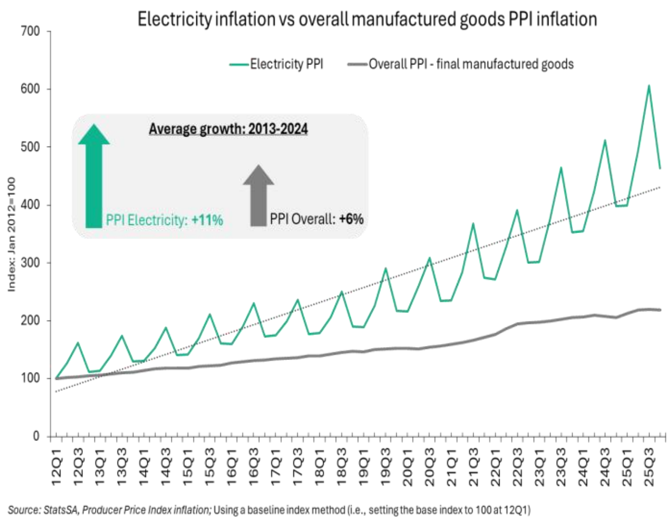
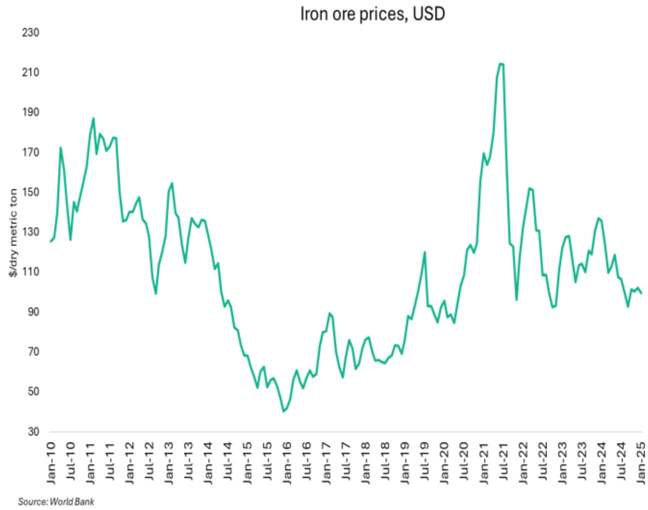


Chart 10



f) **Stalled localisation efforts**: The anticipated boost from localisation has not materialised due to stalled infrastructure projects and economic stagnation.

g) **Lack of protection**: In contrast to more than 64 countries implementing protectionist measures, South Africa remains **one of the least protected markets**, which leaves its steel industry vulnerable.[8]

1.3 Consequences of South Africa's declining steel output

The decline in South Africa's steel production has far-reaching implications for the country, including:

- **Job losses in the steel sector**: A reduction in steel production has had a direct impact on employment in steel manufacturing (see chart below) and related industries such as mining, transportation, and logistics.

  Formal employment in the basic iron and steel industry has steadily declined over the last 15 years, dropping from 50,488 employees in 2009 to just 25,616 in Q3 2024 – a significant decrease of 46%.

  This contrasts with overall formal employment in South Africa, which has shown steady growth during the same period.

[8] *SA Iron and Steel Institute: Steel Matters, June 2024, https://www.saisi.org/wp-content/uploads/2024/07/Steel-Matters-June-2024.pdf*

Chart 11

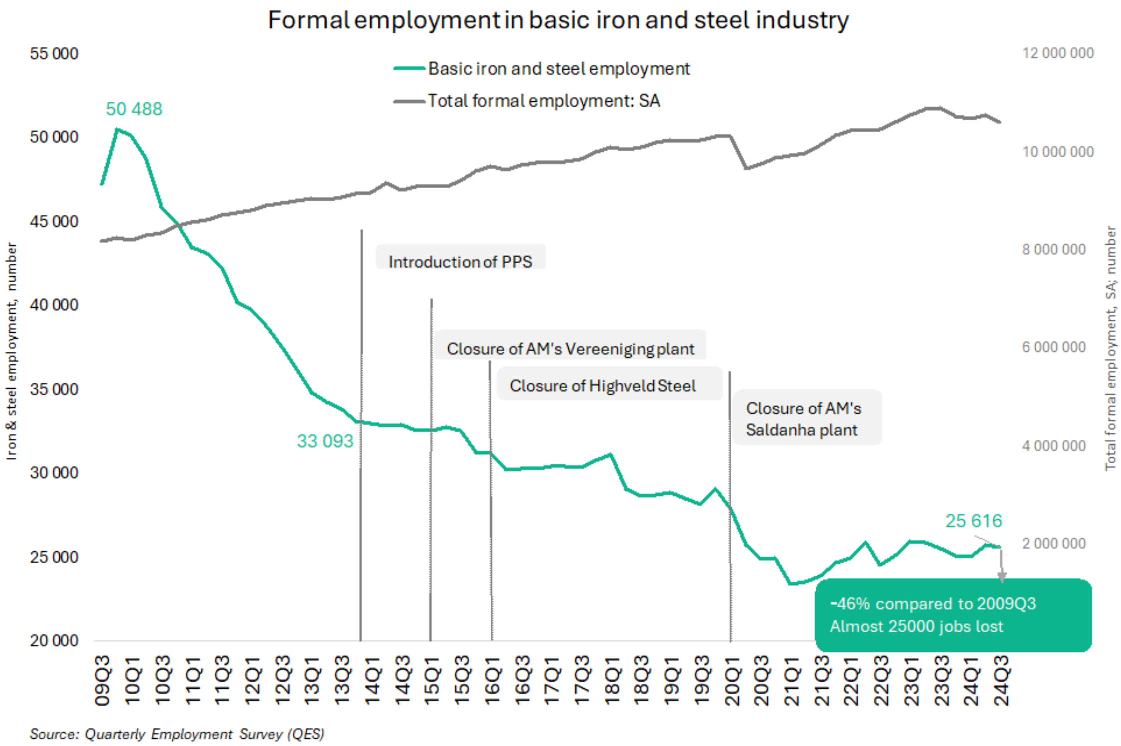


Table 1: Summary of job losses in SA's basic iron and steel industry*

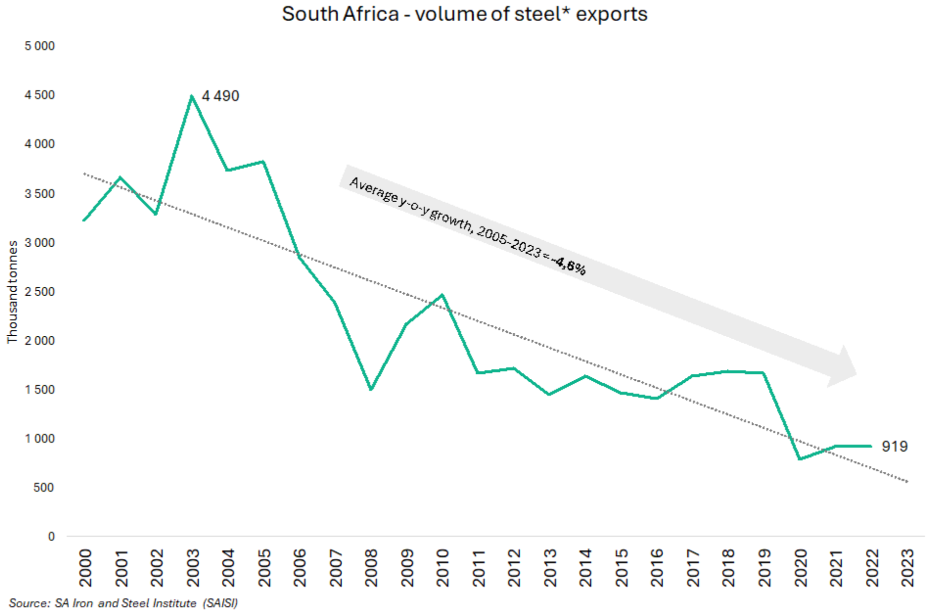
Job losses in the **past 15 years** (from 2009 Q3 to 2024 Q3)	**-24,872 jobs**
Job losses in the **past ten years – since implementing the PPS tax policy** in Q4 2014 – including the closure of the Evraz Highveld Steel plant in 2015 and ArcelorMittal SA's Saldanha plants in 2020.	**-7,477 jobs**
Further job losses from the closure of AMSA's Newcastle plant in 2025.	**-3,400 jobs**

* *These job losses do not account for the jobs generated through linkages with other sectors.*

See Section 5 for further discussion on the impact of AMSA's closure on employment in the industry, as well as the downstream jobs that will be affected. Regarding the latter, it is estimated that due to the Newcastle plant's linkages with other sectors in the economy, a significant 60,000-80,000 direct and indirect jobs in the value chain could be lost due to the plant's closure.

- **Lower export revenue**: With reduced steel production, South Africa exports less steel, impacting the country's trade balance and foreign currency earnings.

Chart 12



- **Weakened industrial base**: Steel is a key input for various industries, including construction, automotive, and infrastructure. A weaker steel sector undermines the competitiveness and growth of these downstream industries.
- **Increased import dependency**: Declining domestic production leads to greater reliance on imported steel products, often at lower prices, creating vulnerabilities in supply chains and exposing local industries to fluctuating global market conditions.
- **Erosion of global market position**: South Africa's shrinking steel output diminishes its standing in global steel markets, reducing its influence and competitiveness.
- **Infrastructure development challenges**: Steel is essential for infrastructure projects. A declining steel industry may lead to higher costs and delays in infrastructure expansion due to reliance on imports.
- **Reduced contribution to GDP**: The steel industry plays a vital role in the economy. Declining production results in a lower contribution to GDP, with ripple effects across multiple sectors (see Section 4).
- **Weakened regional trade potential**: South Africa's declining steel production undermines its ability to meet regional demand, limiting its potential to capitalise on trade opportunities within Africa, such as through the African Continental Free Trade Area (AfCFTA).

  Africa currently produces only about 40% of its steel requirements, with the remaining 60% met through imports. Sub-Saharan Africa alone imports approximately 60–70% of its steel demand (around 20 million tons), highlighting the region's heavy reliance on external suppliers. This import dependence presents a missed opportunity for South Africa to position itself as a key regional supplier.

2. SOUTH AFRICAN POLICY ENVIRONMENT

The South African policy environment is fragmented and does not provide a supportive ecosystem for the industry to thrive.

While the Price Preference System (PPS) and the export tax on scrap metal were introduced to support the domestic steel industry, their effectiveness in fully addressing the challenges of competitiveness and protecting against low-cost imports remains limited.

The Price Preference System (PPS): Implemented in 2013 to support industrialisation and beneficiation policies, the PPS aims to **ensure affordable scrap metal availability** for local steel producers by requiring scrap exporters to first offer their material to domestic buyers at a discounted rate (Steel – 30% discount; Aluminium – 25%; Copper and rest 20%; scrap at coast a further 6% discount).

However, its impact has been debated:

- Local steel producers argue that while the PPS improved scrap metal access, it has not significantly revitalised production or competitiveness.
- Some industry analysts highlight inefficiencies, including enforcement challenges and unintended market distortions.

Export Tax on Scrap Metal: The export tax (introduced in 2021) was another step to curb scrap outflows and incentivise domestic beneficiation. **It was recommended as a simpler replacement for PPS but was implemented *in addition to* PPS**. It aimed to discourage scrap exports to ensure availability for domestic users.

While it provided temporary relief:

- It has not addressed broader structural issues like declining demand for steel products, rising production costs, or energy and infrastructure constraints.
- South African producers still face intense pressure from low-cost steel imports, particularly from China and other markets where steel is produced with significant government subsidies or lower input costs.

Competitiveness and Industrial Policy: Despite these two measures, the domestic market continues to struggle:

- The **absence of broader supportive industrial policies** targeting downstream demand (e.g., infrastructure and manufacturing growth) has limited the ability of the steel sector to recover.
- Protection measures like PPS and export tax have yet to address South Africa's **declining competitiveness** in the global market, where innovation, efficiency gains, and economies of scale play critical roles.

Unintended consequence of the PPS policy: overcapacity in the South African steel industry

- South Africa's steel industry faces significant challenges due to **overcapacity in local long steel production**, which far exceeds domestic demand. With a total steelmaking capacity of 10.5 million tonnes per year and demand of only 4.2 million tonnes, the **oversupply issue is exacerbated by government-supported mini-mills**. These mini-mills, which rely exclusively on scrap steel, primarily serve general and informal industries, as their output often falls short of the quality requirements of formal downstream industries.
- **AMSA's Newcastle blast furnace**, capable of producing 1.7 million tonnes of long steel from iron ore annually, **remains the *only* local mill that meets the formal sector's high-quality needs**. Approximately a third (35%, 400,000–450,000 tonnes) of steel produced in SA is unique to ArcelorMittal and is not made by other mills in the country. This includes high-tech products needed for industries like mining and automotive, which can only be manufactured by ArcelorMittal. Yet AMSA's share of the remaining market has eroded significantly since the PPS was introduced in 2013, as it favours scrap-based mini-mills.
- Originally intended to ensure affordable scrap supply and promote employment and infrastructure development, the PPS has instead led to **declining scrap-processing activity**, job losses, and the proliferation of subsidised mini-mills in an already oversaturated market. This dynamic has destabilised the industry, leading to closures, and AMSA's imminent shutdown of its Newcastle plant may only mark the beginning of further casualties in the sector. Addressing excess capacity and reassessing the PPS policy are critical to restoring balance and sustainability in the steelmaking industry.

In response to a parliamentary question from the Economic Freedom Front (EFF), Minister Tau from the Department of Trade, Industry, and Competition (dtic)[9] highlighted several initiatives outlined in the Steel Master Plan. These included localisation interventions, support for black industrialists, and efforts to strengthen South Africa's manufacturing capabilities across the value chain. Minister Tau pointed to progress in areas such as transmission, distribution, and rail infrastructure programmes as evidence of impact.

The Minister noted that the PPS had been extended, and an export tax on scrap metals was introduced to improve the availability of input materials for the local market. However, he acknowledged that these measures were insufficient to ensure the long-term viability and sustainability of the steel value chain, particularly primary steel production.

Minister Tau stated, *"Owing to the issues of global overcapacity in steel production, coupled with most economies implementing protectionist measures to support their industries, the trade measures introduced thus far have not been effective in stemming the surge of imports, particularly from China."*

[9] *Source: Business Day, 11 Dec 2024, https://www.businesslive.co.za/bd/economy/2024-12-11-new-steel-industry-plans-in-the-pipeline-for-2025/*

3. IMPACT OF POLICY ON SA'S SCRAP STEEL AND RECYCLING INDUSTRIES

3.1 Background/Methodology

The impact of the current policy on ferrous scrap distorts local markets significantly and has resulted in a substantial loss of livelihoods for the benefit of a few.

While there are some limitations to the approach used given time constraints, additional analysis would offer more insight, as outlined below. However, the core findings are both reliable and valid.

As much detailed information as possible was sourced regarding the recycling industry as well as the basic iron and steel industry.

Sources included Statistics South Africa (Stats SA), the South African Revenue Services (SARS), the World Steel Association (WSA) and others.

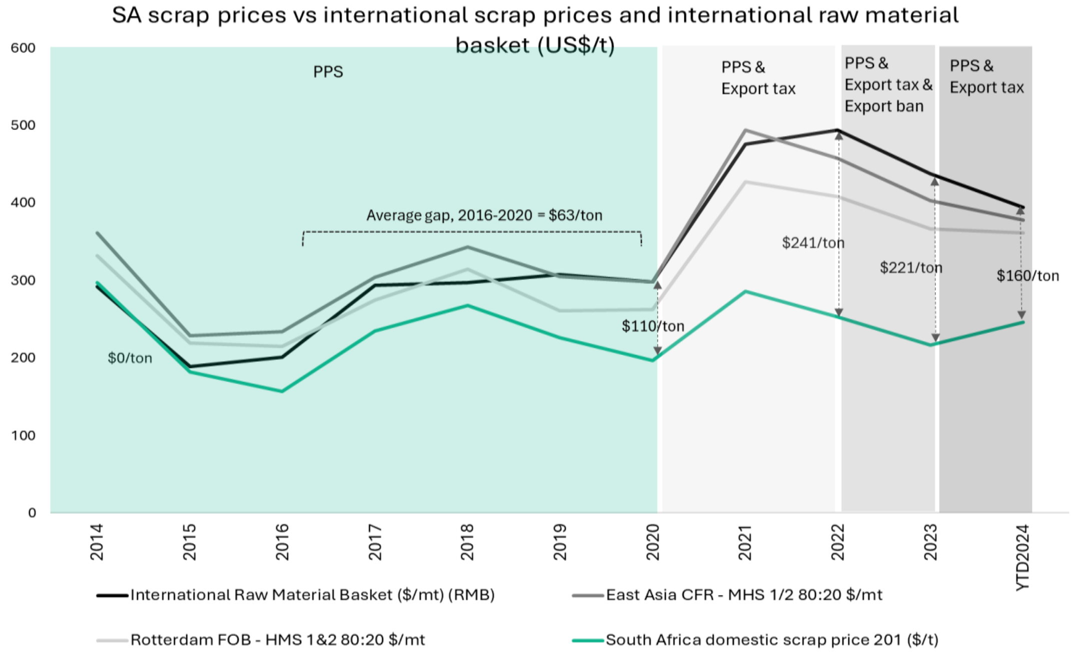
Analyses were performed to estimate the direct impacts of scrap policy intervention on both the recycling industry as well as the basic iron and steel industry and to express these impacts in terms of direct economic impacts (like gross value added, intermediate consumption and employment creation).

Future research could potentially focus on multiplier impacts in terms of indirect and induced impacts of recycling policy interventions, which would add value in terms of total instead of only direct impact.

Moreover, potential economic impacts are shown using time series data (as far as possible) and not only at a single point in time. This is useful in analysing how the impact of scrap policies has evolved over time and also assists in analysing implications in a complex environment with numerous external shocks and volatile price movements.

3.2 Impact of policies on scrap metal prices

Chart 13



This chart illustrates the trends in South African scrap prices compared to international scrap prices and the international raw material basket from 2014 to 2024 (YTD), measured in USD per tonne.

Key points include:

Policy Influence: The introduction of PPS in 2013 and subsequent export tax policies significantly impacted South African scrap prices.

Price Divergence: South African domestic scrap prices have consistently remained lower than international prices since 2016, with noticeable price gaps emerging during periods of additional export restrictions (2021–2023).

Impact of Restrictions: **The introduction of the PPS in 2013 and export tax policies since May 2020 has led to a sustained suppression in South African scrap metal prices**, which have remained below international levels since 2016.

Notably, the price gaps widened significantly with multiple policy implementations of the export tax and ban, in addition to PPS, particularly in 2022, when the gap widened to $241/ton, and in 2023, when it remained significant at $221/ton. In contrast, the gap was much smaller at an average of $63/ton between 2016-2020. With the removal of the scrap export ban, the gap was reduced to approximately $160/mt in 2024 but still remains significantly disruptive and distortionary to the fair price of scrap in South Africa to the detriment of the scrap collection and generation sector.

Economic Context: The suppressed scrap prices in South Africa benefit downstream users but raise concerns about sustainability for upstream industries such as primary steel production.

This highlights the direct relationship between government policy interventions and the pricing dynamics in the scrap and steel industry.

3.2 Volume and value of scrap metal exports

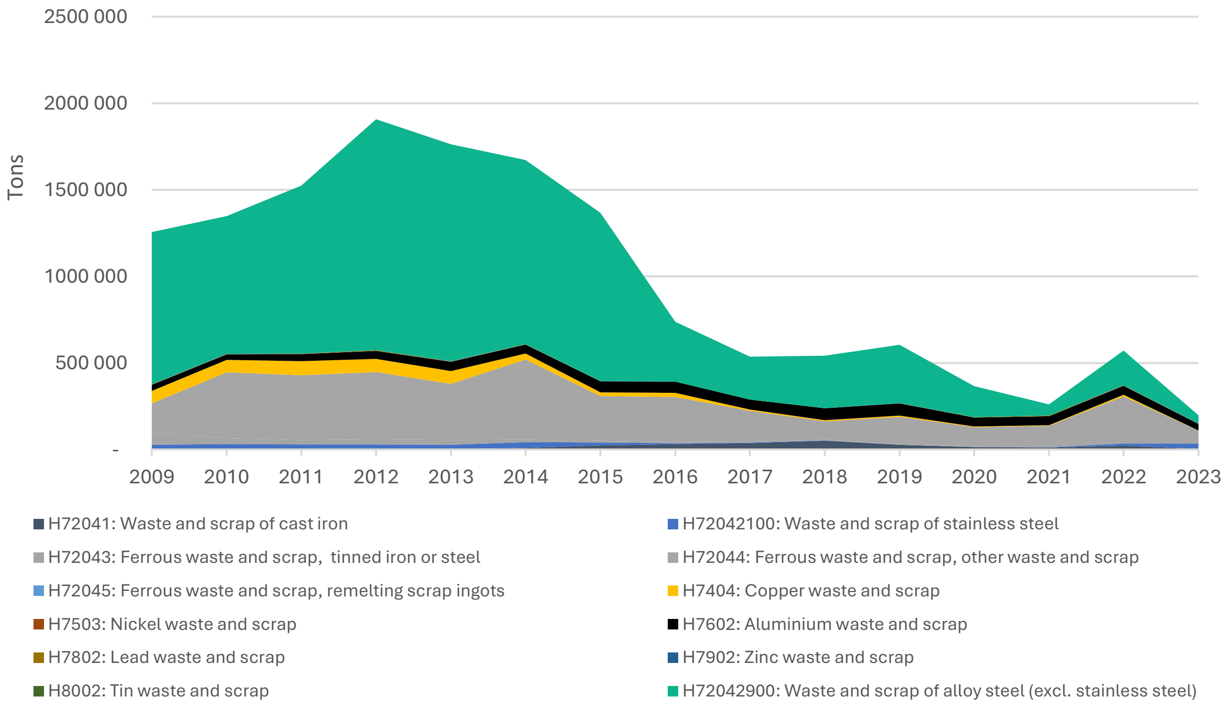
The chart below shows that the **volume of scrap metal exports has decreased** from 2009 to 2023. Scrap metal exports declined from a peak of over 1.9 million tonnes to less than 200,000 in 2023.

The bulk of scrap steel export volumes are made up of waste and scrap of alloy steel and other ferrous waste and scrap.

These two groups accounted for over 90% of the volume of metal scrap exports in 2014 and 2015, but this figure has decreased to 62% in 2023.

Export volumes of ferrous waste and scrap decreased from 1.8 million tonnes in 2012 to 156,427 tonnes in 2023 (a decrease of 91%).

Chart 14: Volume of scrap exports, 2009 – 2023 (tons)[10]



Source: SARS tax statistics

Chart 15 shows the **decrease in the value of metal scrap exports** from 2009 to 2023. The value of scrap metal exports reached a high of close to R10.8 billion in 2013 but has decreased to R2.7 billion in 2023.

The main scrap metal export categories in 2023 are aluminium scrap, stainless steel scrap, other ferrous scrap, alloy steel scrap, and copper scrap.

The **value of ferrous waste and scrap decreased** from R5.9 billion in 2012 ($724 million) to R1.6 billion in 2023 ($85.9 million).

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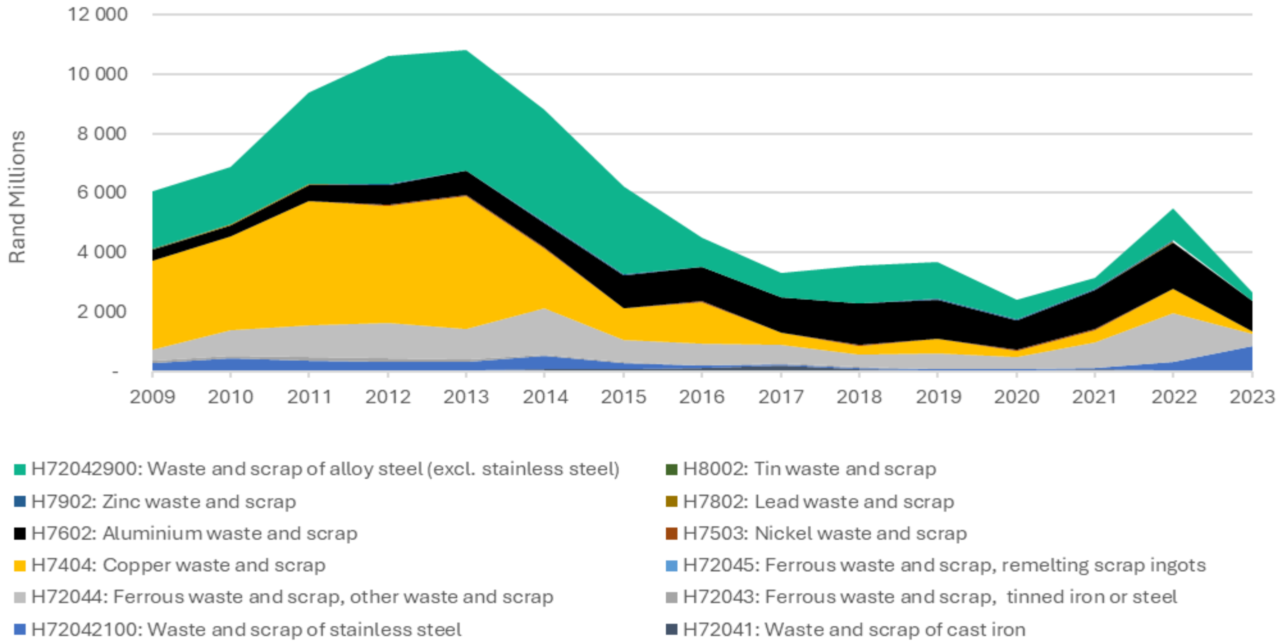
[10] *Excluding waste and scrap of Tungsten (wolfram), Molybdenum, Tantalum, Magnesium, Cobalt, Bismuth, Cadmium, Titanium, Zirconium, Antimony, Beryllium, chromium, hafnium, rhenium, thallium, cadmium, germanium, vanadium, gallium, indium and niobium.*

Chart 15: Value of scrap exports, 2009 – 2023 (R million)



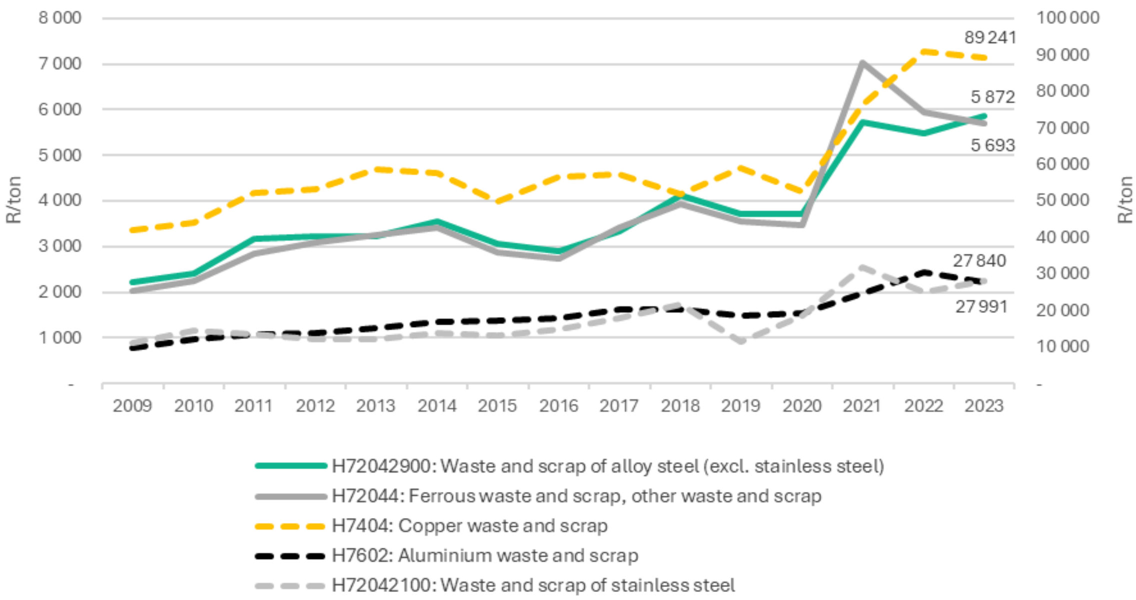
Source: SARS tax statistics

3.3 Scrap export prices

The derived scrap export prices (in rand per tonne) for the main scrap export categories are shown in the chart below. The average price for copper scrap was just below R90,000 per tonne in 2023, and that of aluminium scrap was just below R28,000 per tonne (both indicated on the right-hand axis).

Alloy steel scrap, excluding stainless steel and other ferrous waste and scrap prices, increased respectively to just below R5,900 per tonne and R5,600 per tonne in 2023 (average ferrous waste and scrap of alloy steel prices including stainless steel increased to R10,000 per tonne in 2023).

Chart 16: Export prices of main scrap export metals



Source: Calculated from SARS tax statistics

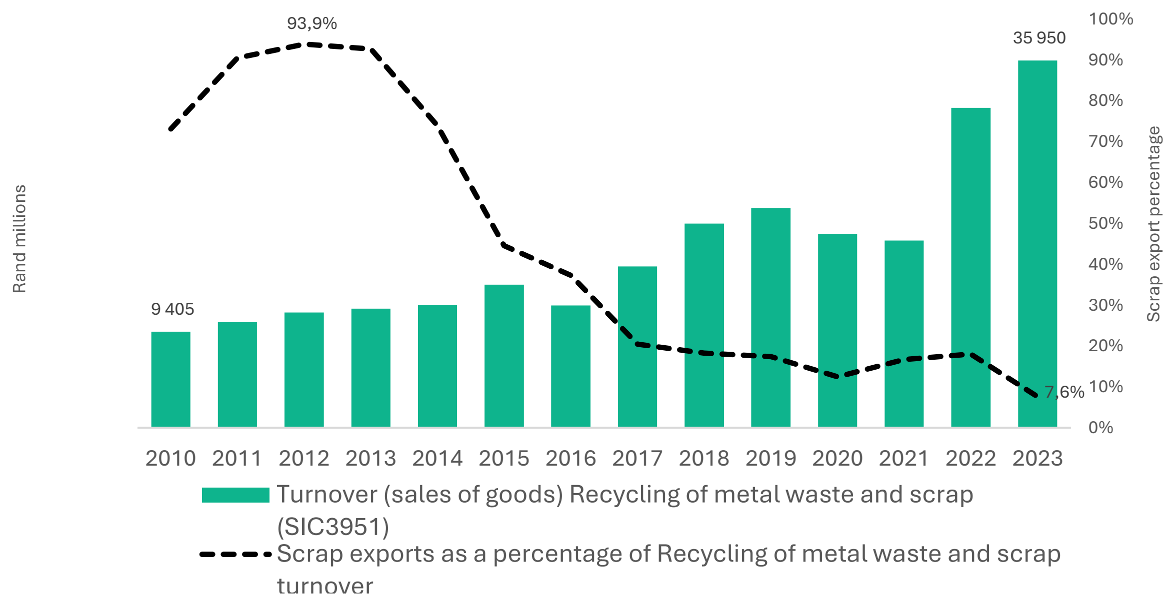
3.4 Recycling of metal waste and scrap industry – economic contribution

Stats SA provides data for the recycling of metal waste and scrap (SIC 3951) as part of its Annual Financial Statistics (AFS) publication.[11]

According to this publication, the total turnover of the recycling of the metal waste and scrap industry increased in nominal terms from R9.4 billion in 2010 to almost R36 billion in 2023.

However, the **value of scrap metal exports as a percentage of the recycling of metal waste and scrap industry's turnover decreased** from over 90% in 2012/13 to below 10% in 2023 due to the intervention of scrap policies.

Chart 17: Value of scrap metal exports as a percentage of the recycling of metal waste and scrap industry turnover



Source: SARS tax statistics and Stats SA, own calculation

According to Stats SA, the total recycling industry employs over 25,000 people (of which 12,000 are formal) and the 'Wholesale trade in non-agricultural intermediate products; waste and scrap' employs 58,000 people (of which 41,500 are formal).

Chart 18 shows the estimated formal employment and average wage in the recycling of *metal* waste and scrap industry. The estimated **formal employment number decreased** from over 15,000 in 2010 to just over 9,600 in 2023.

The estimated **average wage decreased** in nominal terms to below R100,000 in 2013 but increased thereafter to over R200,000 in 2023.

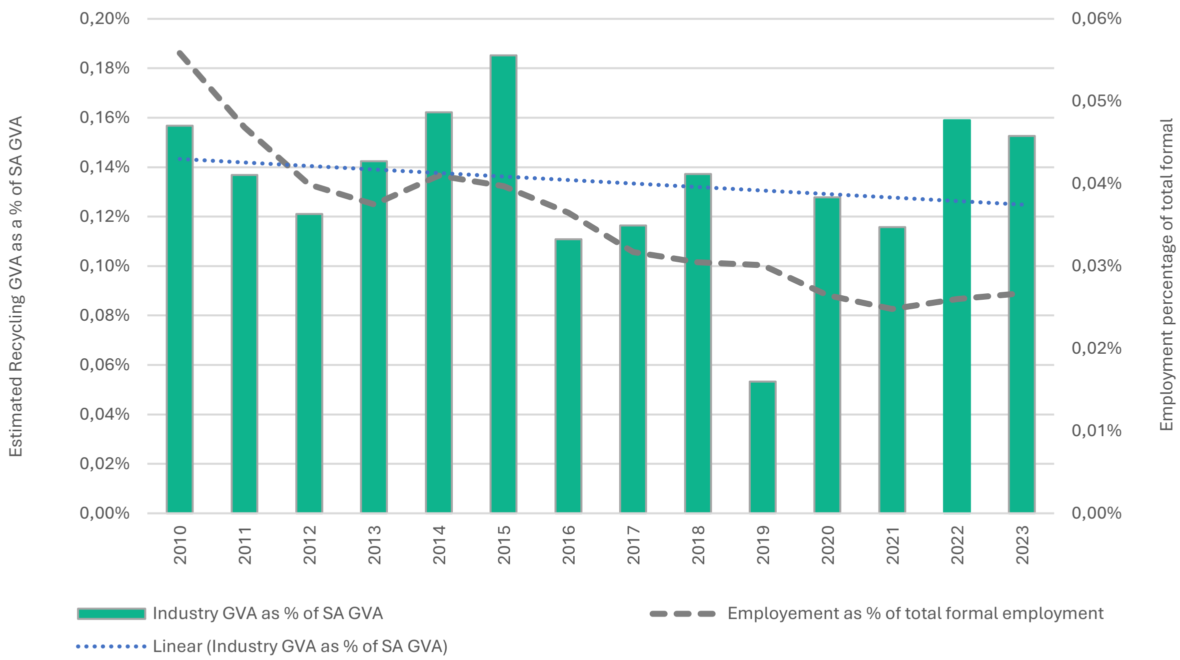
[11] Information is collected for the financial year of enterprises that ended on any date between 1 July of a particular year and 30 June of the following year. The primary goal of the survey is to provide inputs to gross domestic product (GDP) estimates. The survey is published approximately 17 months after the reference period; this implies that there is a lag when compared to annual data the financial period of a company is after 1 July. This is the case with AMSA where the financial year-end is in December. No adjustments had been made to the AFS data account for the lag in the AFS data (except if mentioned explicitly. However, adjustments were made, for example, to the SA GVA when data is compared.

Chart 18: Estimated employment and average wage in the recycling of metal waste and scrap industry

Source: Stats SA, own calculations

The **employment contribution of the industry decreased** from just over 0.05% of formal sector employment in 2010 to below 0.03% in 2023.

Chart 19: Estimated GVA and employment impact of the recycling of metal waste and scrap industry



Source: Stats SA, own calculations

The gross value added (**GVA**) of South Africa's recycling of metal waste and scrap industry has fluctuated, showing a broad **declining trend since 2015**. It peaked at 0.18% of South Africa’s total GVA in 2015, then decreased to just under 0.06% in 2019, averaging around 0.14% (excluding multiplier effects). In 2023, it was estimated at 0.15% (see chart above).

The table below summarises the **estimated economic impact of the recycling of metal waste and scrap industry** (based on AFS publications).

Without the PPS policy, total output intermediate consumption, value added, compensation of employees and gross operating surplus would have been higher.

Table 2: Estimated economic impact (value added method) of the recycling of metal waste and scrap industry (RMillion)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Output at basic prices	9509	10429	11349	11718	12087	14830	12008	15889	20129	21609	19124	18500	31920	35966
Intermediate consumption	8188	9180	10172	10220	10268	12617	10582	14286	18141	20802	17193	16558	29065	33069
Value added at basic prices	1321	1249	1177	1498	1819	2213	1426	1603	1988	807	1931	1942	2855	2897
Compensation of employees	682	799	915	920	924	1016	859	993	947	993	1178	1095	1142	1314
Gross Operating surplus	636	448	260	577.5	895	1197	567	610	1041	-185	752	851	1712	1576
Estimated direct GVA	**1453**	**1372**	**1291**	**1591**	**1890**	**2299**	**1490**	**1736**	**2133**	**1037**	**2027**	**2067**	**3232**	**3186**
Industry GVA as % of SA GVA	**0.05%**	**0.04%**	**0.04%**	**0.04%**	**0.05%**	**0.06%**	**0.03%**	**0.03%**	**0.04%**	**0.02%**	**0.04%**	**0.03%**	**0.05%**	**0.05%**
Employment as % of total SA formal employment	**0.19%**	**0.16%**	**0.13%**	**0.13%**	**0.14%**	**0.13%**	**0.12%**	**0.11%**	**0.10%**	**0.10%**	**0.09%**	**0.08%**	**0.09%**	**0.09%**

Source: Stats SA, own calculations

3.5 Recycling of metal waste and scrap industry – impact of policies

Table 3 analyses the estimated impact of the PPS and scrap export tax policies on the recycling of metal waste and scrap industry.

It is estimated that the **turnover in the recycling of metal waste and scrap could have been R13.5 billion higher in 2023** if it weren't for the scrap policies. This excludes opportunity costs related to a potential increase in the supply of scrap metal volumes if the scrap metal prices were higher (if no PPS discount was applicable).

Opportunity Costs from Scrap Export Reductions

If an additional two million tonnes of ferrous waste and scrap (iron or steel) had been exported at the average 2023 South African export prices, an **extra R20 billion worth of scrap metal could have been generated**.

This figure would be even higher if international scrap prices were applied.

Lost Export Earnings and Potential Opportunity Costs

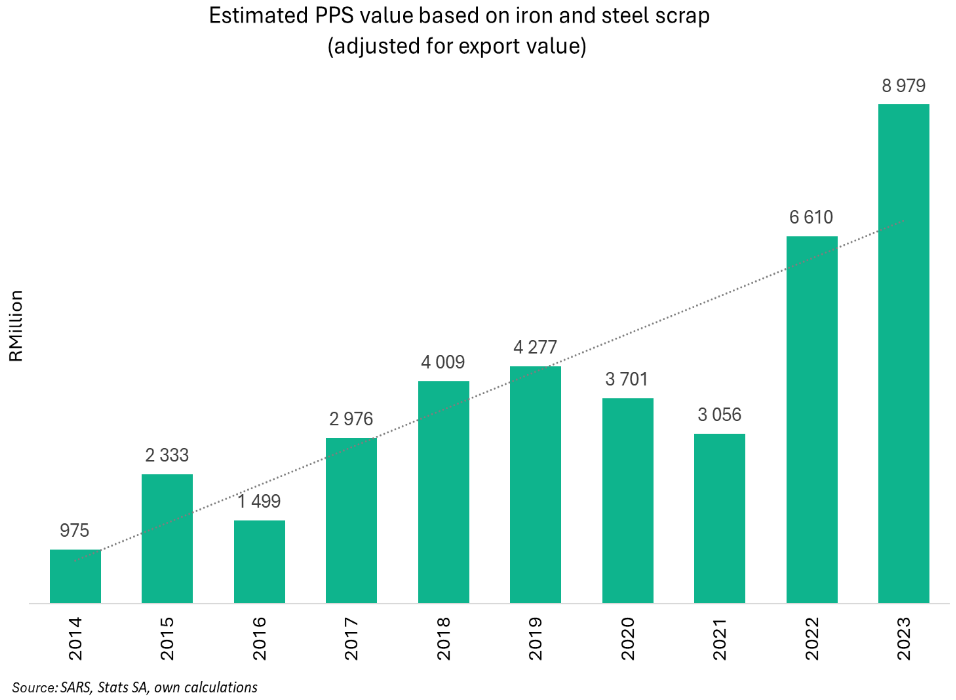
A significant decrease in scrap exports as a percentage of the total turnover of recycling of metal waste and scrap has resulted in **lost opportunity costs**. This means that the **potential export earnings from selling scrap metal at international prices are being missed.** These opportunity costs will depend on assumptions about what percentage of scrap could have been exported if it hadn't been for the scrap policy intervention.

If it is assumed that 70% of metal scrap is exported (the percentage is just as an example to illustrate the impact), given the total turnover in the recycling of metal waste and scrap, adjusted for PPS, it is estimated that **metal scrap worth over R34.6 billion could have been exported in 2023.**

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**

PPS Discount Value and Its Impact on Earnings

The estimated PPS discount 'value' for iron and steel scrap, based on the recycling of metal waste and scrap industry, as well as SARS trade data, is estimated to have increased from under R1 billion in 2014 to close to R9 billion in 2023.



The discount value of iron and steel scrap, excluding stainless steel scrap, is estimated to have increased from around R900 million in 2014 to just over R4 billion in 2023.

This PPS 'value' amount **reduces earnings for all industries that generate metal scrap, as well as for thousands of scrap collectors and waste pickers**.[12]

Impact on Formal Recycler and Informal Waste Pickers

The current scrap policies reduce profits and income for scrap collectors and recyclers and reduce employment in these sectors by effectively subsidising the users of scrap metal. Formal sector jobs fell from 15,000 in 2010 to just over 9,600 in 2023.

These policies have also affected the employment and income of thousands of informal waste pickers, who are essential contributors to South Africa's recycling economy. Estimates suggest that South Africa has approximately 90,000 informal waste pickers, who play a crucial role in the country's recycling economy.[13] These workers are responsible for collecting a significant portion of recyclable materials, contributing to environmental sustainability and providing livelihoods for many. Their efforts have been recognised for saving municipalities substantial amounts in landfill costs.[14]

Impact of Export Tax on Iron and Steel Exports

Given the reported iron and steel exports and a 20% export tax, it is estimated that the value of the tax on iron and steel exports decreased from R624 million to R317 million in 2023. This can be compared to the decrease in actual export tax reported by SARS, which shows a reduction from R844 million in 2022 to R411 million in 2023.

Potential Impact of Removing the PPS on Scrap Export Taxes

Although the impact of removing the PPS policy on scrap metals export taxes (and their subsequent export) remains unclear, the theoretical upper limit in 2023 would have been **just over R9.3 billion in 2023** (based on the reported turnover in the recycling of metal waste and scrap, adjusted for actual exports and PPS policy).

By applying an average percentage (using data from 2010 to 2023), the **cost of such a tax could have been R4.1 billion.**

[12] *No detail information is available on employment in the recycling industry. According to the SA Waste Pickers Association (SAWP) South Africa has more than 90,000 informal waste pickers.* https://wastepickers.org.za/about/ *According to the Stats SA labour market dynamics publication, the Recycling industry employed over 25 000 people (of which 12 000 are formal) and the 'Wholesale trade in non-agricultural intermediate products; waste and scrap' 58 000 people (of which 41 500 are formal) .*

13 Council for Scientific and Industrial Research (CSIR), Waste Picker Integration Guidelines for South Africa: Building the Recycling Economy and Improving Livelihoods through Integration of the Informal Sector*, 2021, https://wasteroadmap.co.za/wp-content/uploads/2021/02/Waste-Picker-Integration-Guidelines.pdf.*

14 South African Cities Network, Empowering Informal Waste Pickers through Clear Policies and Laws*, 2021, https://www.sacities.net/blog-inclusive-integration-empowering-informal-waste-pickers-through-clear-policies-and-laws/.*

Table 3: Estimated impact of PPS and export tax on the recycling of metal waste and scrap industry

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Metal scrap Import (R millions)	256	202	262	375	592	946	844	645	260	185
Metal scrap exports (R millions) (excluding exotic metals)	8 871	6 242	4 467	3 227	3 654	3 746	2 368	3 069	5 652	2 735
Scrap exports as a % of turnover of recycling of metal waste and scrap	73.9%	44.6%	37.3%	20.5%	18.3%	17.4%	12.5%	16.7%	18.0%	7.6%
Steel scrap export (including alloy) (R million) (excluding other metal scrap)	5 923	4 023	1 911	1 641	1 923	1 935	1 130	1 318	3 122	1 586
Export as a % of sales of goods	49.4%	28.7%	15.9%	10.4%	9.6%	9.0%	6.0%	7.2%	10.0%	4.4%
Estimated impact of PPS on the recycling of metal waste and scrap industry (R millions)										
Turnover (sales of goods) Recycling of metal waste and scrap (SIC3951)	12 002	14 005	11 984	15 779	19 996	21 507	18 995	18 336	31 320	35 950
Turnover (sales of goods) minus exports of recycling of metal waste and scrap (SIC3951) Plus estimated PPS Value of discount (all metal scrap)	4 406	10 925	10 578	17 664	22 998	24 995	23 399	21 485	36 122	46 744
Estimated (or derived) PPS value on all metal scrap (adjusted for export value)	1 260	3 138	2 733	4 893	6 462	6 941	6 450	5 766	10 082	13 528
Iron and steel scrap as % of total metal scrap (including alloy steel, stainless steel)	66.8%	64.5%	42.8%	50.9%	52.6%	51.6%	47.7%	42.9%	55.2%	58.0%
Estimated PPS value based on iron and steel scrap (adjusted for export value)	975	2 333	1 499	2 976	4 009	4 277	3 701	3 056	6 610	8 979
Iron and steel scrap as % of total metal scrap (excluding stainless steel)	62%	61%	41%	49%	52%	51%	47%	42%	50%	26%
Estimated PPS value based on iron and steel scrap (adjusted for export value) (excluding stainless steel)	899	2 209	1 431	2 863	3 931	4 246	3 640	3 011	5 936	4 097
Estimated impact of a 20% export tax on iron and steel scrap sales by the recycling of metal waste and scrap industry (R millions)										
Export tax (20%) rand value of duty (iron and steel including alloy, excluding other metal scrap) (R million)								264	624	317
Export tax (Actual reported by SARS)							0	407	844	411
Export tax potential (based on turnover sales, adjusted for exports and PPS)								4 207	7 150	9 349
Export tax (based on turnover sales, adjusted for exports and PPS) given average export % from 2010 to 2023								1 854	3 151	4 120

Note: Scrap metal exports is used as a proxy for the PPS weighting. For steel, a 30% discount is used (for steel scrap at the coast, a further 6% discount is used, and a split is assumed for 70% inland and 30% coast), a PPS discount of 25% is assumed for Aluminium scrap and 20% for Copper scrap and the rest (no adjustments were made for coastal vs inland split for Aluminium and Copper scrap).

Source: SARS, Stats SA, own calculations

Estimating the Impact of the PPS Policy Based on Production Volumes

The impact of the PPS policy can also be estimated based on estimated production volumes.

The table below shows the estimated PPS 'value'[15] on long steel products by applying a 30% discount and an estimate based on the difference between East Asia scrap prices and discounted South Africa scrap prices.

Detailed information on the estimated production of long steel products is included in Appendix A.

Using production volumes provides a **PPS 'value' estimate of between R4.15 billion and R6.4 billion in 2023.**

This is roughly in line with the R5.9 billion and R4.1 billion estimated based on the recycling of metal waste and scrap industry.

Table 4: Estimated PPS 'value' based on estimated iron and steel scrap used in the production of long steel (excluding stainless steel)

	Estimated 'value' impact of PPS on long steel products based on a 30% discount (including AMSA)	Estimated 'value' impact of PPS on long steel products based on SA scrap price discount to East Asia scrap price (including AMSA)
2015	R1 002bn	R668m
2016	R1 165bn	R1 275bn
2017	R1 920bn	R1 475bn
2018	R2 394bn	R2 024bn
2019	R2 150bn	R1 759bn
2020	R2 178bn	R2 365bn
2021	R3 647bn	R5 080bn
2022	R3 732bn	R5 663bn
2023	**R4 155bn**	**R6 424bn**
2024 YTD	R3 482bn	R3 845bn

Source: Own calculations

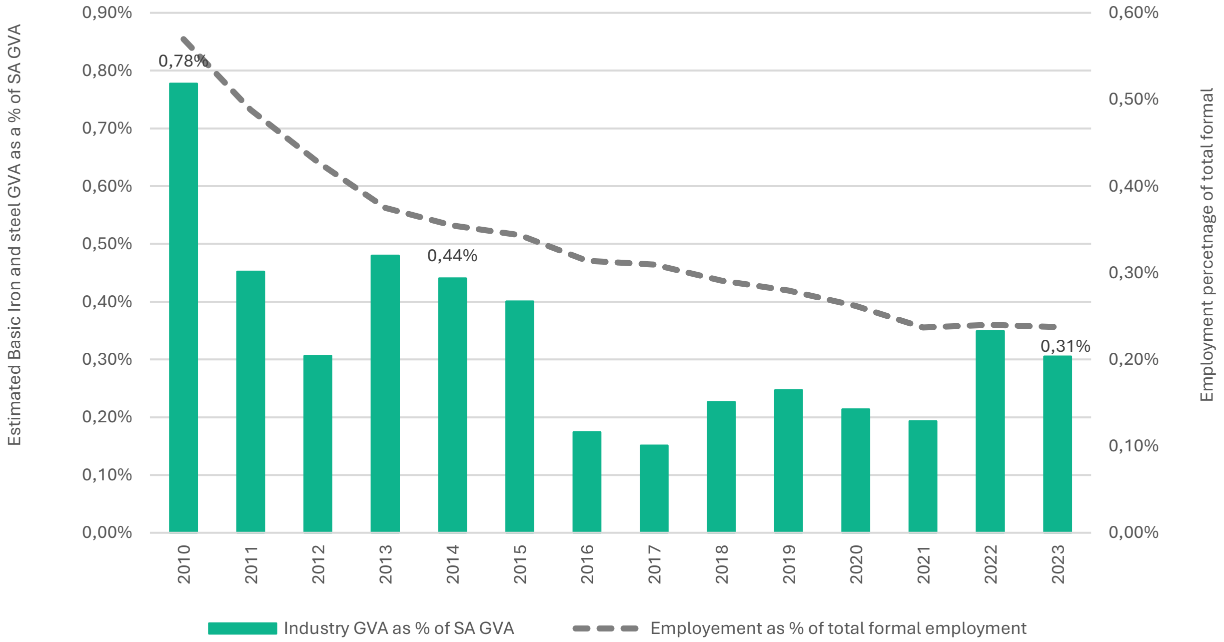
[15] *The term "PPS 'value'" may function similarly to a subsidy by providing an indirect financial benefit to certain players in the market, such as those benefitting from discounted scrap prices. The PPS 'value' is derived by applying a 30% discount and estimating the difference between East Asian scrap prices and discounted South African scrap prices. This produces an estimate of R4.15bn to R6.4bn in 2023, which aligns with estimates based on the recycling of metal waste and scrap industry (R5.9 bn to R4.1 billion). In this case, the "value" is a result of market distortions (such as lower scrap prices) rather than a direct government subsidy. However, it could be perceived as a market advantage that is analogous to the effects of a subsidy, especially when it benefits certain market players while potentially disadvantaging others.*

4 SA's BASIC IRON AND STEEL MANUFACTURING SECTOR – CONTRIBUTION TO THE SA ECONOMY

4.1 Contribution of the basic iron and steel sector to the South Africa economy

The estimated contribution of the basic iron and steel manufacturing industry to the total **GVA** of South Africa decreased from 0.78% in 2010 to 0.3% in 2023 (with a low of 0.1% in 2017) – see chart below.[16]

Chart 20: Basic iron and steel manufacturing GVA as a percentage of SA GVA and the industry's formal employment as a percentage of SA formal employment



Source: Stats SA, own calculations

The contribution of the industry to total formal sector **employment** in South Africa decreased from close to 0.6% of total formal sector employment in 2010 to 0.24% in 2023 (chart 20).

Employment in the iron and steel manufacturing industry decreased from over 47,000 in 2010 to below 26,000 in 2023 (chart 22).

[16] *According to the 2021 supply and use tables, the iron and steel manufacturing sector contributed 0.44% to South Africa's GVA. (This figure, which was estimated in 2014 was most likely used in the rebasing of the GDP to 2015 prices.)*

Chart 21: Iron and steel manufacturing, employment and average wage (2010 – 2023)

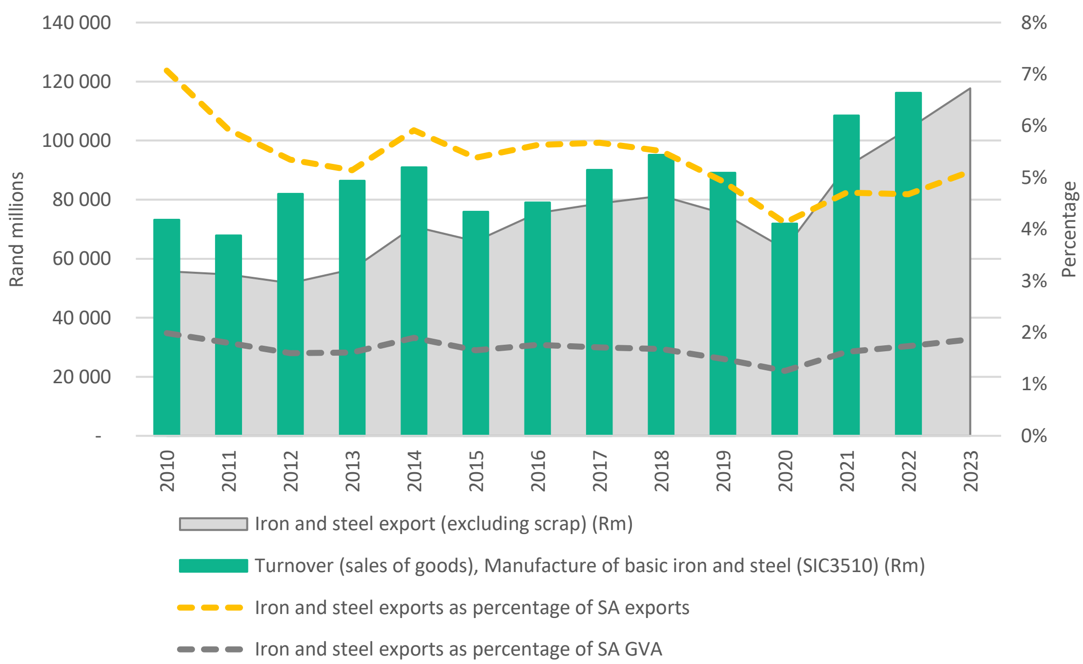
Source: Stats SA, own calculations

Chart 22 provides an overview of the turnover in the manufacturing of the basic iron and steel industry (in nominal terms, lagged one year) together with iron and steel exports. Iron and steel exports are also expressed as a percentage of SA's total exports as well as the percentage of the GVA.

The **turnover** of the manufacturing of basic iron and steel increased from R7.4 billion in 2010 to R116.2 billion in 2022 (in dollar terms, this represents a decrease from $10 billion in 2010 to $7.1 billion in 2022).

Iron and steel exports as a percentage of total exports decreased from more than 7% in 2010 to 4.5% in 2023.

Chart 22: Iron and steel exports, turnover of basic iron and steel manufacturing and iron and steel exports as a % of SA total exports



Source: SARS, Stats SA, own calculations

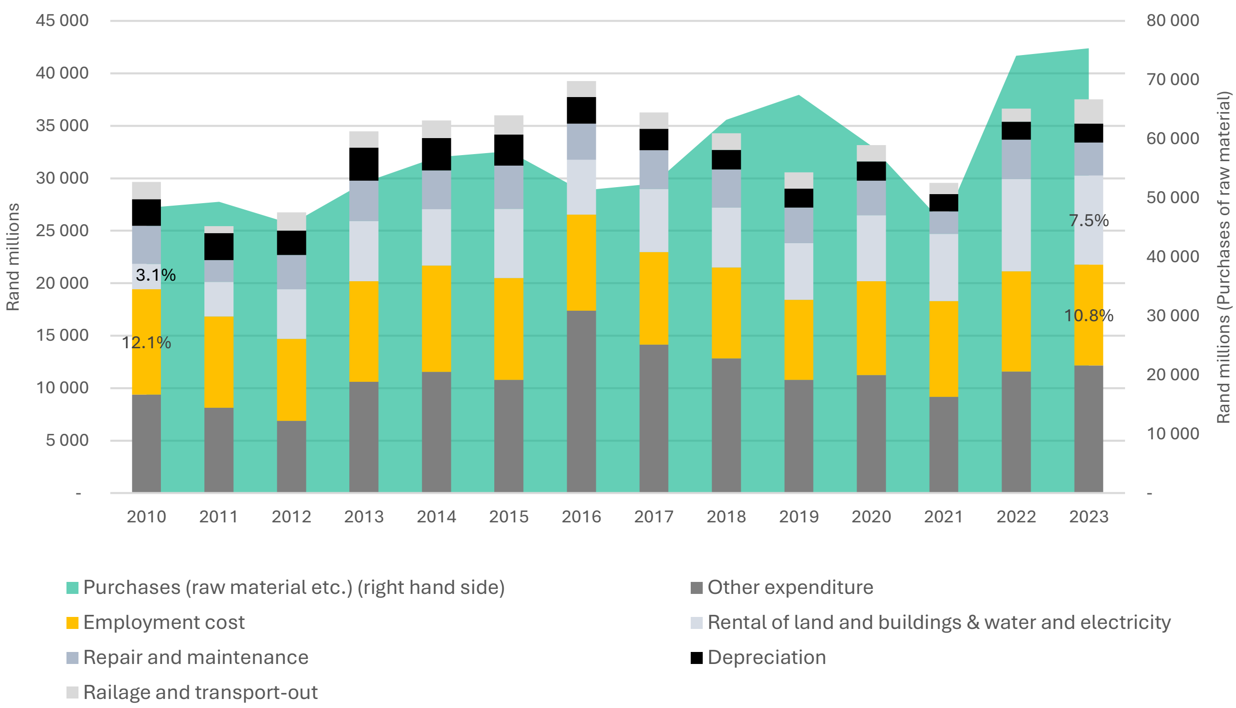
The chart below provides a breakdown of the main cost drivers of the iron and steel manufacturing industry, as indicated in the AFS.

While **average salaries** increased, **employment cost** in nominal terms declined from over R10 billion in 2010 to R9.6 billion in 2023 (a decrease of 4.4% and a decrease in the expenditure share from 12.1% to 10.8%).

Electricity (included with the rental of land, buildings and other structures, including water) increased from less than R2.4 billion in 2010 to over R8.5 billion in 2023 (an increase of 256%).

Purchases (mainly of raw materials and other consumables) increased from R48.3 billion in 2010 to R75.4 billion in 2023 (an increase of 56%).

Chart 23: Iron and steel manufacturing, main expenditure items based on the AFS data



Source: Stats SA, own calculations

The table below gives a snapshot of the key economic estimates for the basic iron and steel industry from 2010 to 2023.

The manufacturing of the basic iron and steel industry **GVA** totalled R17.7 billion in 2023, down from R19.3 billion in 2022.

The **total output** at basic prices (in nominal terms) increased from R79 billion in 2010 to over R116 billion in 2023. However, it decreased as a percentage of the overall GVA (from 0.8% in 2010 to 0.3% in 2023).

The estimated **operating surplus** decreased from close to R11 billion in 2010 to -R2 billion in 2017. It jumped again to over R9.7 billion in 2022 and R8.1 billion in 2023 due to increased total output (the increase in total output is likely a result of increases in global steel prices during 2021/22 and 2022/23).

Table 5: Estimated economic impact (value added method), Manufacture of basic iron and steel (SIC3510), RMillion

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Output at basic prices	79 026	74 639	69 891	84 732	88 747	91 572	75 745	80 339	90 862	97 026	86 505	71 459	118160	116454
Intermediate consumption	58 003	61 880	60 250	68 037	72 704	76 006	67 161	73 561	80 427	84 887	75 930	61 093	98 839	98 693
Value added at basic prices	21 023	12 759	9 641	16 695	16 043	15 566	8 584	6 778	10 435	12 139	10 575	10 366	19 321	17 761
Compensation of employees	10 041	8 697	7 800	9 567	10 155	9 697	9 162	8 839	8 675	7 625	8 929	9 121	9 575	9 600
Gross Operating surplus	10 945	3 942	1 766	7 119	5 894	5 863	(589)	(2 070)	1 746	4 499	1 634	1 228	9 726	8 117
Gross value added (GVA)	**20 986**	**12 639**	**9 566**	**16 693**	**16 049**	**15 560**	**8 573**	**6 769**	**10 421**	**12 124**	**10 563**	**10 349**	**19 301**	**17 717**
Industry GVA as % of SA GVA	**0.78%**	**0.45%**	**0.31%**	**0.48%**	**0.44%**	**0.40%**	**0.17%**	**0.15%**	**0.23%**	**0.25%**	**0.21%**	**0.19%**	**0.35%**	**0.31%**
Employment as % of total formal SA employment	**0.57%**	**0.49%**	**0.43%**	**0.37%**	**0.35%**	**0.34%**	**0.31%**	**0.31%**	**0.29%**	**0.28%**	**0.26%**	**0.24%**	**0.24%**	**0.24%**

Source: Stats SA, own calculations

4.2 Estimated economic contribution of the mini-mills

Contribution

Table 5 shows the estimated direct economic contribution of the mini-mills after adjusting the AFS data for the manufacturing of basic iron and steel with financial data from AMSA, as well as estimates of Columbus Stainless based on financial data contained in the annual reports of the IDC.[17]

Financial data for Samancor's smelting operations could not be obtained, so a bottom-up approach was followed based on trade data, domestic demand estimates and the total turnover of Scaw SA (sourced from various IDC annual reports).[18]

The estimated **total output** at basic prices for the mini-mills decreased slightly from R14.6 billion in 2020 to R13 billion in 2023.

The **gross value added** (GVA) at basic prices is estimated at R2.6 billion in 2023.

It is estimated that the **compensation of employees** increased from R1.4 billion in 2020 to R1.7 billion in 2023.

The **number of employees** is estimated at roughly 4,500 (based on the average wage in the industry).

[17] *Source: IDC, https://www.idc.co.za/annual-results/*

[18] *According to the IDC annual reports, Scaw SA's turnover increased from R3.2 billion in 2020 to R4.68 billion in 2022 before falling back to R4.06 billion in 2023. Turnover in 2024 increased to R8 billion. Scaw SA's profitability improved from a loss of R71 million in 2020 to R614 million in 2022; it was R386 million in 2023 and R463 million in 2024.*

Table 6: Estimated direct economic contribution of the mini-mills (R millions)

	2020	2021	2022	2023
Total Output at basic prices	14 567	12 455	14 202	13 010
Intermediate consumption	11 963	10 351	12 369	10 397
Compensation of employees	1 414	1 658	1 683	1 713
Gross operating surplus	1 185	442	145	891
Gross value added	**2 600**	**2 099**	**1 828**	**2 604**
GVA as a % of SA GVA	0.052%	0.037%	0.031%	0.041%
Employment	4 399	4 510	4 471	4 479

Source: Own estimates based on information from Stats SA, AMSA annual reports, IDC annual reports, SARS

Economic impact on mini-mills PPS subsidy is removed

The tables below show the estimated impact on key economic variables for the mini-mills if the estimated PPS subsidy is removed (everything else is kept constant for this analysis).

Table 6 shows the impact of the PPS calculated based on a 30% discount, and Table 7 shows the impact of the PPS based on the average price difference between SA scrap prices and the East Asia scrap price (includes also assumed lower price scrap prices due to the export tax on scrap).

In both tables, **gross operating surplus turns negative** as intermediate consumption increases with the PPS 'value' amount. Additionally, the gross value added for 2021- 2023 is also negative in both tables.

This suggests that the PPS subsidy plays a crucial role in maintaining the profitability and viability of mini-mills.

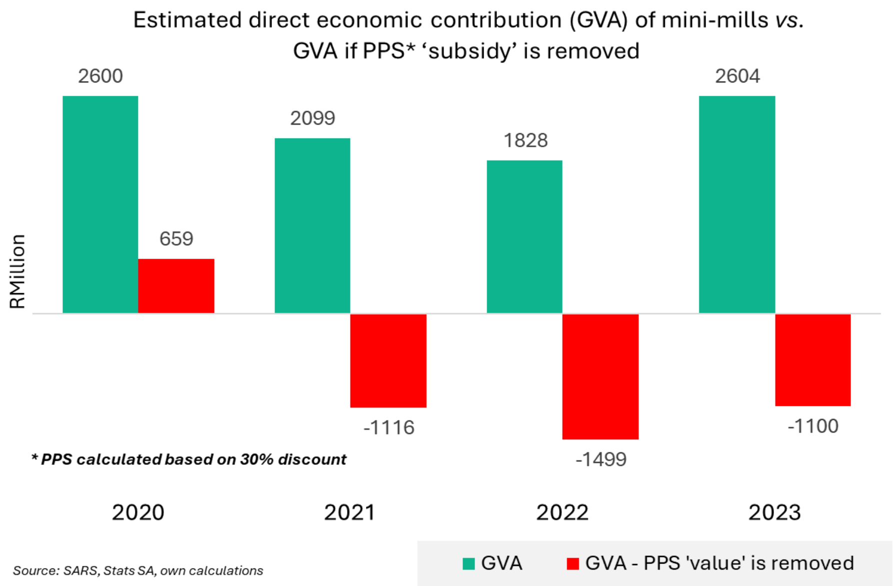


Table 7: Estimated direct economic contribution of the mini-mills (R millions), including PPS calculated based on a 30% discount

	2020	2021	2022	2023
Estimated PPS 'value'	2 108	4 478	5 050	5 727
Total Output at basic prices	14 567	12 455	14 202	13 010
Intermediate consumption	13 905	13 566	15 696	14 102
Gross operating surplus	(756)	(2 773)	(3 182)	(2 813)
Compensation of employees	1 414	1 658	1 683	1 713
Gross value added	**659**	**(1 116)**	**(1 499)**	**(1 100)**

Source: Own estimates based on information from Stats SA, AMSA annual reports, IDC annual reports, SARS

Table 8: Estimated direct economic contribution of the mini-mills (R millions), including PPS calculated based on average price difference given SA scrap price discount to East Asia scrap price

	2020	2021	2022	2023
Estimated PPS 'value'	1 941	3 215	3 327	3 704
Total Output at basic prices	14 567	12 455	14 202	13 010
Intermediate consumption	14 071	14 829	17 418	16 125
Gross operating surplus	(922)	(4 036)	(4 905)	(4 836)
Compensation of employees	1 414	1 658	1 683	1 713
Gross value added	**492**	**(2 379)**	**(3 222)**	**(3 123)**

Source: Own estimates based on information from Stats SA, AMSA annual reports, IDC annual reports, SARS

5 ECONOMIC AND SOCIO-ECONOMIC CONTRIBUTION OF NEWCASTLE WORKS TO SA AND THE IMPACT OF ITS CLOSURE

5.1 Background

Apart from the catastrophic social and economic impacts such a closer will have on the town of Newcastle and its citizens, there will be significant effects on the government fiscus, with increased costs to the State in the form of social grants, UIF, and medical and health expenses, amongst other impacts. In general, both the municipality and its citizens will face increased poverty and diminished services.

ArcelorMittal's Newcastle Works, located in the industrial town of Newcastle in northern KwaZulu-Natal, is South Africa's leading supplier of profile products and the country's only fully integrated mill converting iron ore into long steel products.

The mill is recognised as one of the world's lowest-cost billet producers and highlights the success of intensive re-engineering programmes. This integration is vital for the local beneficiation of South Africa's abundant iron ore resources, which are largely exported.

Newcastle's mill produces a wide range of profile products, including commercial grades, free-cutting steels, micro-alloyed steels, and high-carbon wire-rod steels.[19]

Due to the continued overcapacity in South Africa's steel industry, exacerbated by policies such as the Scrap PPS, the closure of major production facilities, such as AMSA's Newcastle Works, has recently been announced.

The growing market imbalance and rising costs faced by primary producers have made it difficult for established mills to maintain profitability.

The closure of these facilities will have far-reaching consequences, not only for the affected companies but also for the broader economy, including job losses, reduced industrial capacity, and the potential erosion of local supply chains.

This section explores the potential impacts of such closures on the steel industry and the wider economy based on the contribution of the Newcastle Works to the economy.

[19] *https://arcelormittalsa.com/Portals/0/Newcastle%20Works.pdf*

5.1 Direct Contribution of Newcastle Works to SA's GDP[20]

Total output at basic prices for the Newcastle plant increased from R7 billion in 2022 to R12.9 billion in 2023.

The gross value added (GVA) is estimated at R3.5 billion in 2023.[21]

Table 9: Newcastle Works' direct economic impact (RMillions)

	2020	2021	2022	2023
Total output at basic prices	7 363	10 400	11 624	12 936
Newcastle output as % of SA's basic iron and steel sector output	8.1%	15.2%	9.4%	11.0%
Intermediate consumption	6 862	9 408	10 324	12 712
Newcastle intermediate consumption as % of SA's basic iron and steel sector intermediate consumption	9.0%	15.4%	10.4%	12.9%
Compensation of employees	696	784	795	859
Gross operating surplus (adjusted for losses)	796	208	1 463	2 627
Gross value added[21]	**1 492**	**993**	**2 259**	**3 486**

Source: StatsSA, Own estimates based on information from AMSA

AMSA's Newcastle mill *directly* **contributed 0.3% to Kwa-Zulu Natal's GVA** and a significant **11.4% to Newcastle** Local Municipality's (LM) GVA (see Table 9).

Table 10: Direct contribution of AMSA's Newcastle plant to GVA (RMillions)*

	2020	2021	2022	2023	2020-23
Gross value added[21]	**R1,49bn**	**993m**	**R2,26bn**	**R3,49bn**	**R8,23bn**
Newcastle Plant's contribution to the GDP of:					
South Africa	0,03%	0,02%	0,04%	0,06%	**0,01%**
KwaZulu Natal	0,2%	0,1%	0,2%	0,3%	**0,2%**
Amajuba District Municipality	4,6%	2,8%	5,9%	8,8%	**5,5%**
Newcastle Local Municipality	**6,1%**	**3,7%**	**7,9%**	**11,4%**	**7,3%**

Source: AMSA, Quantec; AMSA data is for financial years. Own Estimates.

[20] *Although the calculations in this report were made using gross value added (GVA), the term gross domestic product (GDP) will be used throughout. Conceptually, value added simply is the total value of production. Gross value added (GVA) and gross domestic product (GDP) therefore are exactly the same concepts. In national accounts, whenever measurement of total value of production is made at either factor cost or basic prices, the convention is to use the term GVA rather than GDP. However, this is a terminological convention.*

GVA measures the contribution to the economy of each individual producer, industry or sector SA. GVA is used in the estimation of Gross Domestic Product (GDP); GDP is a key indicator of the state of the whole economy. ***GVA = total gross output – intermediate consumption.*** *The link between GVA and GDP can be defined as:* ***GVA + taxes on products - subsidies on products = GDP***

[21] *The* ***value added calculation for Newcastle Works*** *has been adjusted given the net losses in 2020, 2021 and especially in 2023. This adjustment assume an 'injection' or subsidy from AMSA to Newcastle Works to realise a zero loss for the purpose of calculating the gross value added. This 'injection' by AMSA is required to support the level of output and intermediate consumption that benefited the plant, Newcastle town and other upstream industries. If Newcastle Works were to make a profit, the value added would have been higher.*

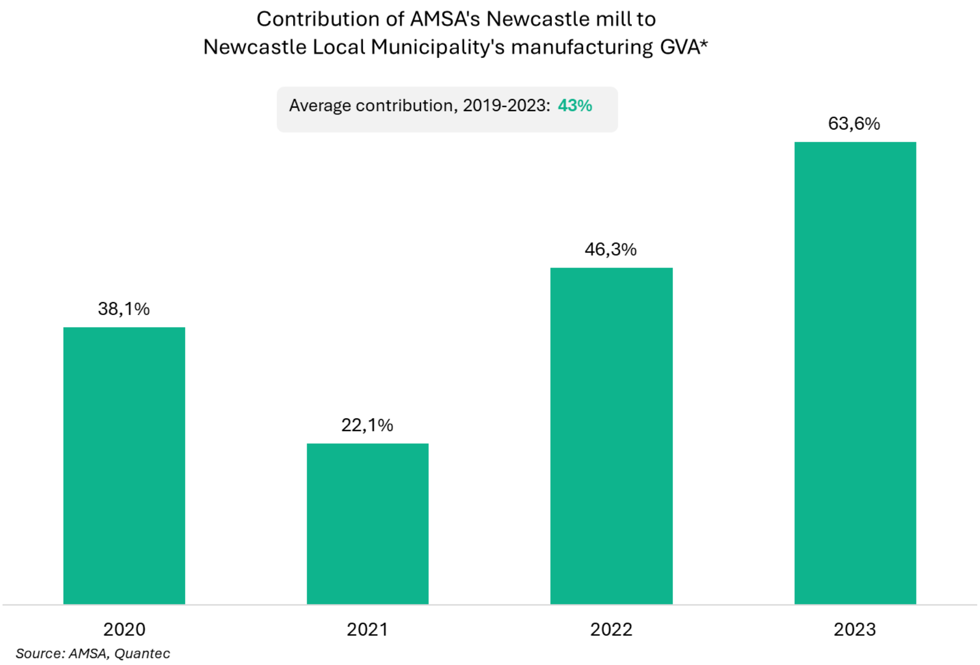
AMSA's Newcastle mill *directly* **contributed 1.9% to Kwa-Zulu Natal's manufacturing sector's GVA** and nearly two-thirds **(63.6%) to Newcastle's manufacturing sector's** GVA, highlighting the devastating impact that a closure of the plant would have on the town's economy (see Table 10 and Chart 24).

Table 11: Direct contribution of AMSA's Newcastle plant to manufacturing GVA (RMillions)

	2020	2021	2022	2023	2020-23
Gross value added	**R1,49bn**	**993m**	**R2,26bn**	**R3,49bn**	**R8,23bn**
Newcastle Mill's contribution to the manufacturing sector's GDP of:					
South Africa	0,2%	0,1%	0,3%	0,4%	**0,3%**
KwaZulu Natal	1,2%	0,7%	1,4%	1,9%	**1,3%**
Amajuba District Municipality	33,0%	19,1%	39,8%	54,5%	**36,6%**
Newcastle Local Municipality	**38,1%**	**22,1%**	**46,3%**	**63,6%**	**42,5%**

Source: AMSA, Quantec. AMSA data is for financial years

Chart 24



The Newcastle mill has backward and forward linkages to numerous other sectors in the economy (see section 5.5), and the company's economy-wide impact is, therefore, far broader.[22]

5.2 Contribution to employment

ArcelorMittal plays a vital role in Newcastle's economy as one of the area's major industrial employers.

The Newcastle plant is a critical part of the local economy, supporting thousands of direct and indirect

[22] *The economy-wide impact will not be calculated in this report but may be addressed at a later stage.*

jobs and providing economic activity for the surrounding community.

Its commitment to workforce development has significantly enhanced the skillset of KwaZulu-Natal's labour force, particularly within the local community.

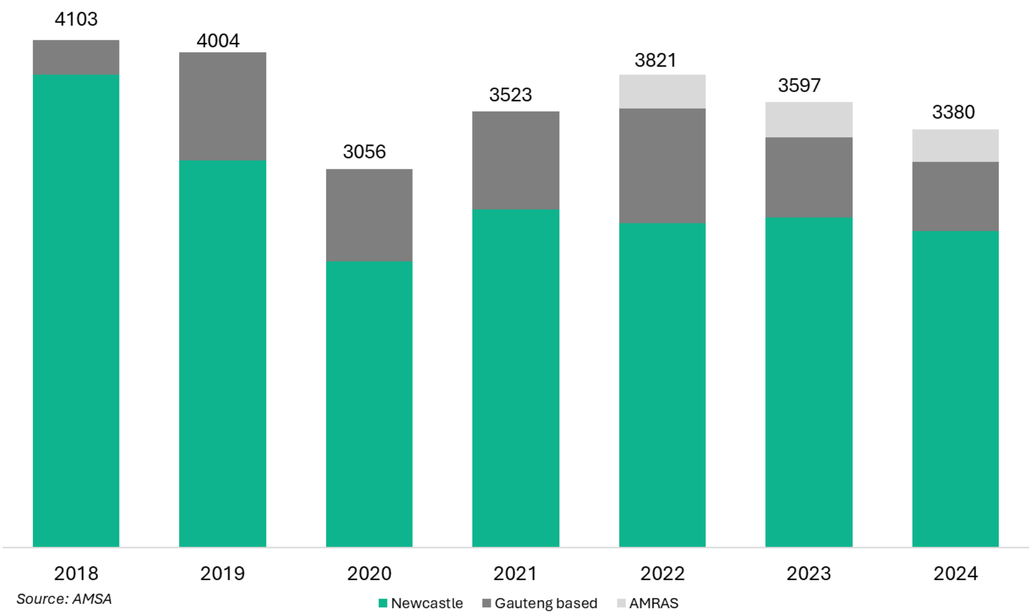
Additionally, ArcelorMittal upholds stringent health and safety standards, ensuring a secure working environment for both its employees and the suppliers operating within the plant.

In 2024, Newcastle Works employed approximately 3,400 individuals (including permanent staff and contractors), an increase from 3,600 in 2023. The total employees from Newcastle Works includes employees based in Newcastle (2,559), those based in Gauteng (558), and individuals employed by AMRAS (263).

Of the new permanent recruits in 2023, 78% were African, Coloured, and Indian (ACI) employees.[23]

Chart 25

Total (permanent and contractors) employed by AMSA's Newcastle mill



Source: AMSA

The Newcastle mill also engages several local businesses to provide on-site and support services, including transport, catering, cleaning, and security. When factoring in contracting companies and suppliers, the total number of jobs supported by the mill is significantly higher.

Newcastle Works' *direct* employment contributed **4.7% of Newcastle's total formal employment in 2023**, and, on average, **4.8%** over the period 2019-2023 (Table 11 and Chart 26).

This is a significant contribution in a municipality where the unemployment rate is around 32%[24] (the official rate; the expanded unemployment rate, which also includes discouraged workers, is close to 43%). In addition, 45% of Newcastle Municipality's population endure food poverty.[25]

[23] *Source: AMSA Environmental, Social and Governance report , 2023, arcelormittalsa.com/Portals/0/ArcelorMittal South Africa 2023 ESG Final_1.pdf*
[24] *adm-final-idp-2023-may23.pdf*
[25] *Source: Unemployment and poverty levels hurting Newcastle and bordering towns*

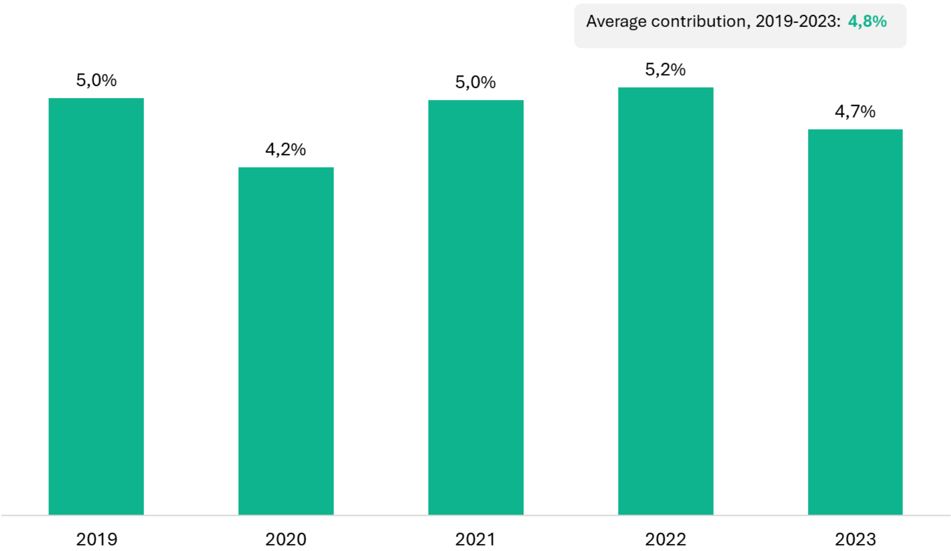
Table 12: Direct contribution of AMSA's Newcastle plant to total formal employment

	2019	2020	2021	2022	2023	2024	2019-23
Total direct employment (permanent and contractors)	4 004	3 056	3 523	3 821	3 597	3 380	**3 600**
Newcastle Mill's contribution to the total formal employment of:							
South Africa	0,02%	0,02%	0,02%	0,02%	0,02%	n/a	**0,02%**
KwaZulu Natal	0,2%	0,2%	0,2%	0,2%	0,1%	n/a	**0,2%**
Amajuba District Municipality	3,8%	3,2%	3,8%	3,9%	3,5%	n/a	**3,6%**
Newcastle Local Municipality	**5,0%**	**4,2%**	**5,0%**	**5,2%**	**4,7%**	n/a	**4,8%**

Source: AMSA, Quantec.

Chart 26

Contribution of AMSA's Newcastle mill's total employment to Newcastle Local Municipality's employment



Source: AMSA, Quantec

Newcastle Works' employment contributed **37.1% of Newcastle's total formal manufacturing employment in 2023**, and, on average, **38,5%** over the period 2019-2023 (Table 11 and Chart 26).

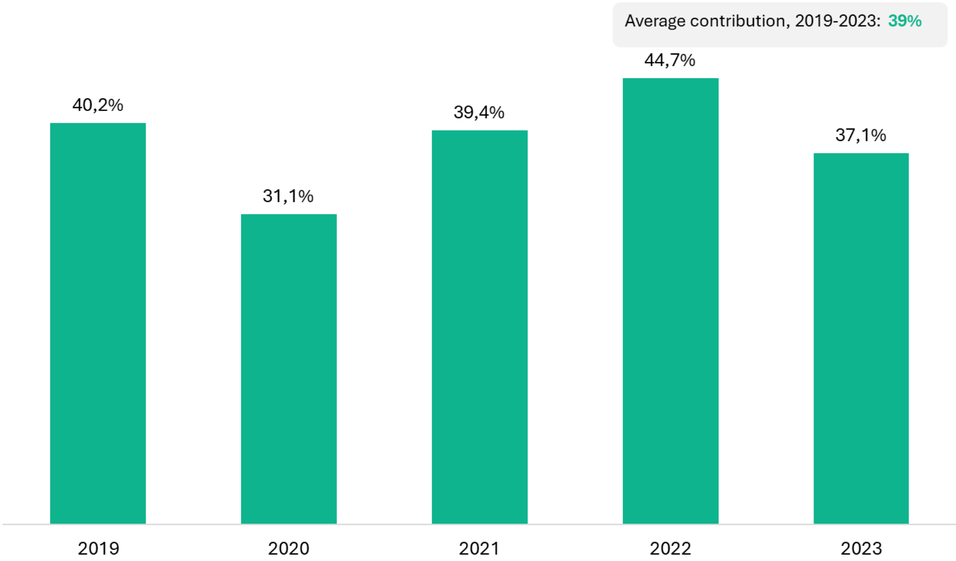
The fact that the Newcastle plant contributes close to 40% of formal employment in Newcastle LM's manufacturing sector highlights the devastating impact its closure would have on the town's economy (see Table 12 and Chart 27).

Table 13: Direct contribution of AMSA's Newcastle plant to manufacturing sector employment

	2019	2020	2021	2022	2023	2024	2019-23
Total direct employment (permanent & contractors)	4 004	3 056	3 523	3 821	3 597	3 380	**3 600**
Newcastle Mill's contribution to employment in the formal manufacturing sector of:							
South Africa	0,3%	0,2%	0,3%	0,3%	0,2%	n/a	**0,2%**
KwaZulu Natal	1,4%	1,5%	1,4%	1,4%	1,2%	n/a	**1,4%**
Amajuba District Municipality	33,7%	28,3%	34,3%	34,5%	29,3%	n/a	**32,0%**
Newcastle Local Municipality	**40,2%**	**31,1%**	**39,4%**	**44,7%**	**37,1%**	n/a	**38,5%**

Source: AMSA, Quantec.

Chart 27
Contribution of AMSA's Newcastle mill to employment in Newcastle Local Municipality's manufacturing sector



Source: AMSA, Quantec

The livelihoods of nearly 3,400 people, including permanent staff and on-site contractors, along with their dependents – most of whom reside in Newcastle – are directly and positively impacted by Newcastle Works. Given the region's high unemployment levels (32%), this represents a significant portion of the population with limited alternative employment opportunities, particularly in the formal non-agricultural sector.

The dependency ratio for Newcastle Local Municipality, which measures the proportion of dependents (aged 0–14 and over 65) to the working-age population, is approximately 51%.[26]

Consequently, the loss of employment opportunities provided by Newcastle Works would severely impact the local economy and the livelihoods of many individuals and their families in the area.

5.3 Contribution to labour income

The compensation of employees of AMSA's Newcastle mill increased to R859 million in 2023 from R795 million in 2022.

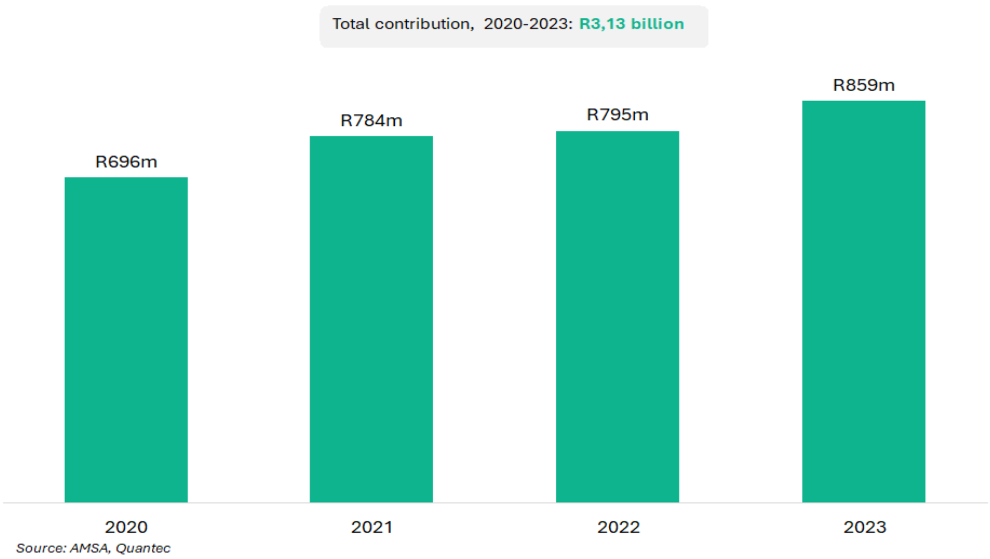
When considering the salaries of off-site contractors (which is not published in this report), Newcastle Works' total remuneration bill is significantly higher.

Over the last four years (2020-2023), employee compensation by Newcastle Works totalled a cumulative **R3,13 billion.**

[26] https://municipalities.co.za/demographic/1069/newcastle-local-municipality

Chart 28

Total direct compensation of employees by AMSA's Newcastle mill



Remuneration of the staff of Newcastle Works **directly contributed 5.5% of the total remuneration of Newcastle** in 2023. The average contribution over the last four years (2020-2023) was **5.4%.**

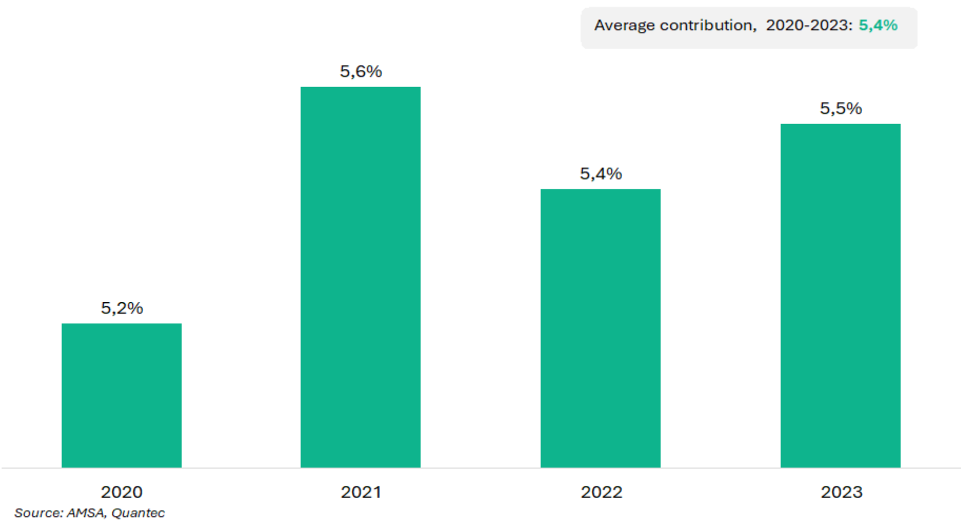
Table 14: Direct contribution of AMSA's Newcastle plant's compensation

	2020	2021	2022	2023	2020-23
Total compensation	R696m	R784m	R795m	R859m	**R3,13bn**
Newcastle Mill's contribution to the total compensation of:					
South Africa	0,03%	0,03%	0,03%	0,03%	**0,03%**
KwaZulu Natal	0,2%	0,2%	0,2%	0,2%	**0,2%**
Amajuba District Municipality	4,1%	4,4%	4,3%	4,4%	**4,3%**
Newcastle Local Municipality	**5,2%**	**5,6%**	**5,4%**	**5,5%**	**5,4%**

Source: AMSA, Quantec. AMSA data is for financial years.

Chart 29

Contribution of AMSA's Newcastle plant to Newcastle Local Municipality's *total* compensation



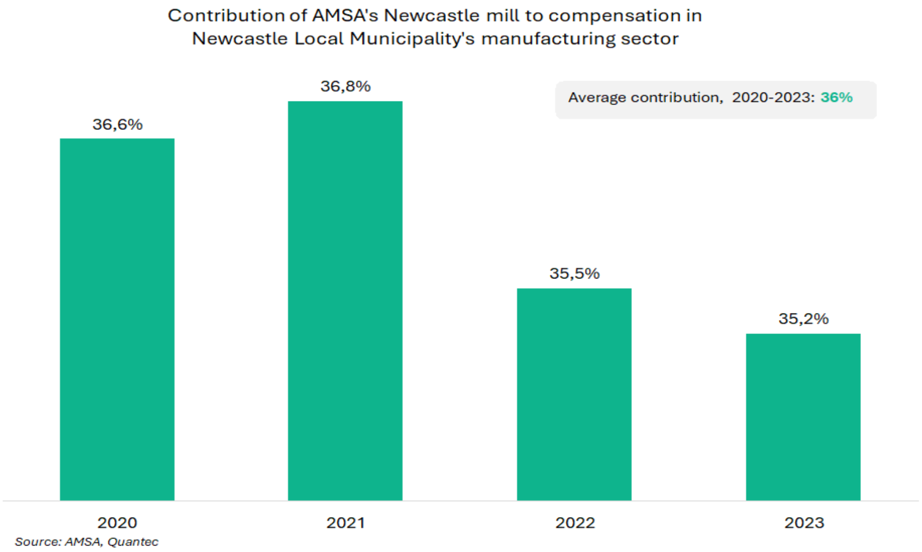
Remuneration of the *permanent* staff of **Newcastle Works contributed a substantial 35.2% to Newcastle's (formal) manufacturing sector's wage bill** in 2023. The average share for the period 2020-2023 was **36%, emphasising the damaging impact the plant's closure will have on Newcastle's community.**

Table 15: Direct contribution of AMSA's Newcastle plant's compensation to manufacturing sector

	2020	2021	2022	2023	2020-23
Total compensation	R696m	R784m	R795m	R859m	**R3,13bn**
Newcastle Mill's contribution to the compensation in the manufacturing sector of :					
South Africa	0,2%	0,2%	0,2%	0,2%	**0,2%**
KwaZulu Natal	1,1%	1,1%	1,1%	1,1%	**1,1%**
Amajuba District Municipality	31,7%	31,9%	30,6%	30,2%	**31,1%**
Newcastle Local Municipality	**36,6%**	**36,8%**	**35,5%**	**35,2%**	**36,0%**

Source: AMSA, Quantec. AMSA data is for financial years.

Chart 30



Remuneration per employee

The average remuneration per *permanent* employee at Newcastle Works of R535,536 *per annum* in 2023 far exceeds the average estimated annual salary in South Africa's formal sector of R242,431 per annum.

On a provincial basis, the average annual remuneration of Newcastle Works's employees also **exceeds the average estimated income of employees in KwaZulu Natal's formal sector** of R255,945, and Newcastle LM's R234,688.

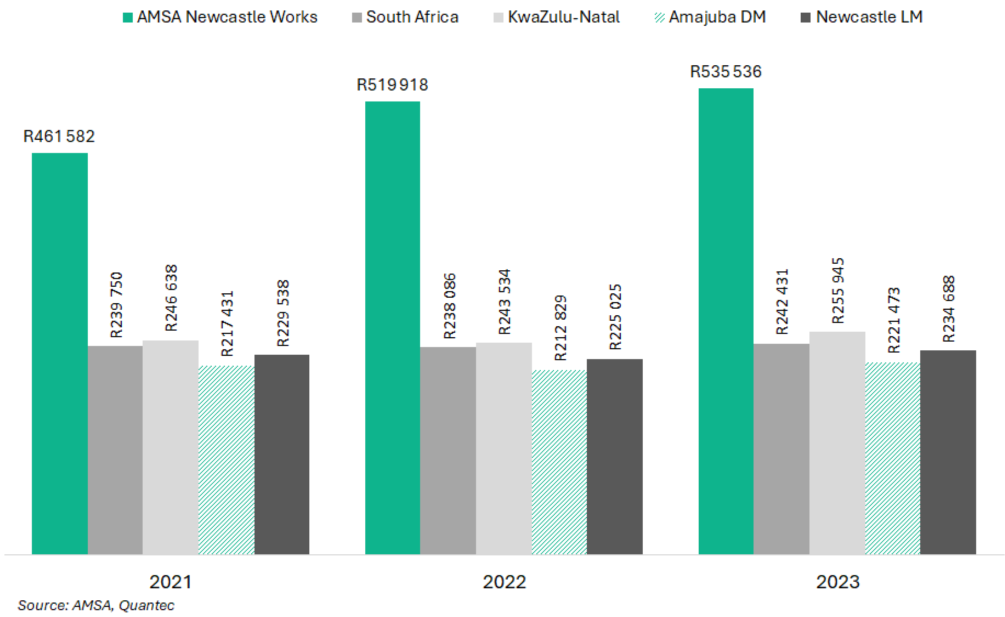
Table 16: Average annual compensation per permanent employee at AMSA's Newcastle plant – comparison (Rand)

	2020	2021	2022	2023	2020-23
Total compensation per employee at Newcastle Works	R422 055	R461 582	R519 918	R535 536	**R484 773**
Comparison by region					
South Africa	R207 786	R239 750	R238 086	R242 431	**R232 013**
KwaZulu Natal	R213 279	R246 638	R243 534	R255 945	**R239 849**
Amajuba District Municipality	R185 330	R217 431	R212 829	R221 473	**R209 266**
Newcastle Local Municipality	**R196 936**	**R229 538**	**R225 025**	**R234 688**	**R221 547**

Source: AMSA, Quantec. AMSA data is for financial years.

Chart 31

Compensation per employee - comparison



5.4 Contribution to manufacturing output

Steel is found in every market and is the most commonly used metal in the world. It is vital to the construction, transport, manufacturing, motor, medical, aircraft, defence, and domestic appliance industries.

ArcelorMittal South Africa is the largest steel producer in sub-Saharan Africa. In 2023, the company produced 2.8 million tonnes of liquid steel, marking a 14% increase from 2022 but 10% below the 2021 output of 3.1 million tonnes.

AMSA operates extensive, capital-intensive facilities in Vanderbijlpark (flat steel), eMalahleni (structural steel), and Newcastle (long steel) in northern KwaZulu-Natal.

AMSA manufactures both flat and long steel products (the latter produced in Newcastle) in a wide range of grades and specifications for downstream manufacturers across southern, West, and East Africa, as well as other international markets.

While traditional ironmaking and primary steelmaking methodologies remain central to its operations, AMSA has actively pursued low-carbon technologies and practices since 2022.[27]

Key Operations and Production[28]

Ironmaking. There are two blast furnaces in Vanderbijlpark (Blast Furnace C & D) with an annual iron making capacity of 3.4 million tonnes and one at the Newcastle Works (Blast Furnace N5) with an annual ironmaking capacity of 1.8 million tonnes.

A sinter plant in Newcastle processes iron ore fines into sinter with a capacity of 2.2 million tonnes per annum (Mtpa).

Steelmaking and Rolling. Liquid iron is transformed into steel at basic oxygen furnaces (BOFs) at both Vanderbijlpark and Newcastle.

In Newcastle, the steel is cast into blooms for long rolling, producing semi-finished products such as blooms, slabs, and billets. These undergo further processes like hot rolling, cold rolling, painting, annealing, galvanising, and cutting before delivery to clients.

Metallurgical Coke Production. Metallurgical coke is produced at five batteries in Vanderbijlpark and three in Newcastle. AMSA produced 1.1 million tonnes of coke in 2023, primarily for internal use in iron and steel production. It also sells market coke for external sale, primarily serving the Ferroalloys sector.

By-products. By-products such as tar, BOF slag, and blast furnace slag are generated during ironmaking and steelmaking and provide an additional revenue stream and service many other industries like fertilisers, timber coatings, cement, etc.

Tubular Products. Tubular Products is South Africa's sole producer of hot-rolled and cold-drawn seamless tube products. In 2023, AMSA produced 44,465 tonnes, with 77.5% being exported.

Significance of Newcastle Works. Newcastle Works is South Africa's **only fully integrated mill** converting iron ore into long steel products, supporting local beneficiation of the country's iron ore resources. It produces a diverse range of profile products, including low- and medium-carbon commercial grades, micro-alloyed steels, and high-carbon wire-rod steels. Newcastle Works is vital to South Africa's industrial value chain and local economy. Just over a third of steel produced in SA is unique to ArcelorMittal and is not made by other mills in the country. This includes high-tech products needed for industries like mining and automotive, which can only be manufactured by ArcelorMittal.

[27] *AMSA Integrated Annual Report, 2023*
[28] *AMSA Integrated Annual Report, 2023*

The closure of the Newcastle plant will disrupt supply chain continuity, with critical products potentially needing to be sourced from abroad or imported. This will create significant challenges for other steel producers and industries that rely on these products.

Future Prospects. Coke production is expected to rise to 1.9 million tonnes annually over the next four years following extensive investments. AMSA continues to invest in efficiency and sustainability to remain competitive in the global and local markets.

Total production by Newcastle Works was valued at **R12.9 billion** in 2023. Over the period 2020-2023, total production was valued at a cumulative **R42.3 billion.**

Table 17: Value of manufacturing output of AMSA's Newcastle Works (RMillions**)**

	2020	2021	2022	2023	2020-23
Newcastle Works: Total output at basic prices	R7,36bn	R10,4bn	R11,62bn	R12,94bn	**R42,32bn**
Newcastle Work's output as a % of basic iron and steel sector output of South Africa	8.1%	15.2%	9.4%	11.0%	**10,9%**
Newcastle Works' output as a % of manufacturing output of Newcastle LM	47,6%	60,9%	63,9%	64,3%	**59.2%**

Source: AMSA, StatsSA. AMSA data is for financial years.

AMSA's Newcastle plant is a leading contributor to South Africa's basic iron and steel manufacturing base. Newcastle Works' production accounted for **11%** of the total basic iron and steel manufacturing in South Africa in 2023.

The plant contributed **two-thirds (64%)** of Newcastle Local Municipality's total manufacturing output in 2023 – highlighting the dire impact its closure would have.

5.5 Newcastle Works' supply chain and linkages with other industries[29]

- Newcastle Works substantially impacts the KwaZulu-Natal economy because of its strong inter-industry linkages, as well as its usage of primary raw materials.
- The mill has a substantial multiplier effect on the economy due to the extensive up-and-downstream linkages with a wide range of local suppliers of goods and services and adjacent industries.
- The activities of Newcastle Works span the economy's primary, secondary, and tertiary sectors. The mill depends on various sectors of the economy to supply the required production inputs, ranging from mining, energy and manufacturing to finance, construction and services industries.

  The mill is also a significant user of logistic services in terms of transport between ports and the plant, inbound and domestic movements of raw input materials, and supporting numerous associated warehousing operations.

[29] *SA's big steel producers struggling 'to keep lights on'; https://www.engineeringnews.co.za/article/downstream-companies-implore-arcelormittal-south-africa-govt-to-avoid-long-steel-plant-closures-2024-01-24*

The extensive linkages mean the steel mill supports a large ecosystem of suppliers, transporters, manufacturers, and end-users. It drives significant economic activity and employment across multiple sectors through its vast multiplier effects.

- This significance was underscored by an urgent crisis summit held in January 2024, where more than 20 industry associations, along with experts, called for immediate measures to ensure the continued operation of the plant. Representing sectors such as construction, automotive, mining, rail, electricity transmission, and aerospace, the summit participants highlighted **Newcastle Works' role as the sole local facility capable of producing long steel from iron ore.**
- The South African steel value chain is integral to mineral beneficiation, increasing the economic value of the country's iron ore tenfold. It also serves as a vital enabler for key sectors of the economy, including automotive, mining, construction, energy, and infrastructure.
- The Newcastle plant's 1.7-million-tonne-a-year blast furnace is essential to the formal downstream steel industry, which requires high-quality long steel for manufacturing and infrastructure projects. This capacity currently meets about 35% of the country's long steel demand, with no viable alternative to replace it domestically.
- In addition, according to SEIFSA, AMSA's **Newcastle plant supports approximately 290,000 jobs in downstream operations**. The ripple effects of a potential closure would be disastrous, leading to production stoppages and possible closures of downstream sub-industries reliant on Newcastle's output.
- The closure of AMSA's Newcastle blast furnace will severely disrupt the country's **automotive sector**, which relies on AMSA for 70,000 tonnes of auto-grade long steel annually. With no immediate local replacement, manufacturers must either stockpile or resort to costly imports, increasing production costs by up to 25% due to forex exposure and logistics delays. This disruption threatens South Africa's localisation efforts, setting the industry back by seven years and jeopardising plans to localise an additional 30,000 tonnes of steel-based components. The economic fallout in the sector could amount to potentially billions in annual losses.

  In addition to the 3,500 direct AMSA layoffs, the automotive component sector risks losing 3,000 immediate jobs, with an estimated 13,000 more at risk in 2025 (*Source: Naacam*)[30]. Over the long term, more than 100,000 jobs could become unsustainable. The loss of local steel supply may force automakers to shift component production abroad, undermining localisation and affecting compliance with export rules of origin. International partners may also lose confidence in South Africa as a manufacturing hub, potentially excluding the country from future projects, including electric vehicle programmes.

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[30] *Source: ArcelorMittal South Africa (AMSA) Closure – Where To For Automotive Manufacturing In SA? - NAACAM*

Naacam states that, without intervention, the closure will weaken the country's industrial base, increase reliance on costly imports, and erode competitiveness in global markets. To mitigate these risks, South Africa must ensure continued auto-grade steel production, either by securing an AMSA supply extension, transitioning mini-mills into certified suppliers, or implementing state support measures to sustain affected manufacturers and workers. Failure to act could severely undermine South Africa's industrialisation ambitions and long-term automotive growth.

- The closure of AMSA's Newcastle plant also poses a severe threat to South Africa's **mining equipment manufacturing sector**, which relies on locally produced steel for production. Steel is a critical input for the manufacturing industry, and its local availability directly affects sectors like mining equipment. Rising costs from importing raw materials will erode competitiveness, disrupt supply chains, and weaken localisation efforts. The Mining Equipment Manufacturers of SA (MEMSA)[31] has stated that the closure will accelerate de-industrialisation, jeopardising jobs and economic stability across multiple industries. According to MEMSA, without urgent policy intervention, South African manufacturers risk being undercut by subsidised foreign imports, further destabilising the industrial economy. MEMSA calls on the government to prioritise localisation, implement protective measures, and restore incentives to safeguard the sector's future.
- In the broader context, replacing Newcastle's output with imports is not a feasible short-term solution due to supply chain challenges, high transport costs, and the unique specifications of locally developed steel products. The inevitable increase in imported finished goods would weaken South Africa's already fragile manufacturing sector, threatening its competitiveness and sustainability.

The extensive range of up- and downstream and adjacent industries (i.e., backward and forward linkages) supported by Newcastle Works is set out in the table below:

[31] *Source: MEMSA Calls for Urgent Government Action Following Arcelor Mittal Plant Closures, Jan 2024*

Table 18: Supply chain of Newcastle Works: up- and downstream industries in South Africa

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.		

5.6 Local expenditure by Newcastle Works

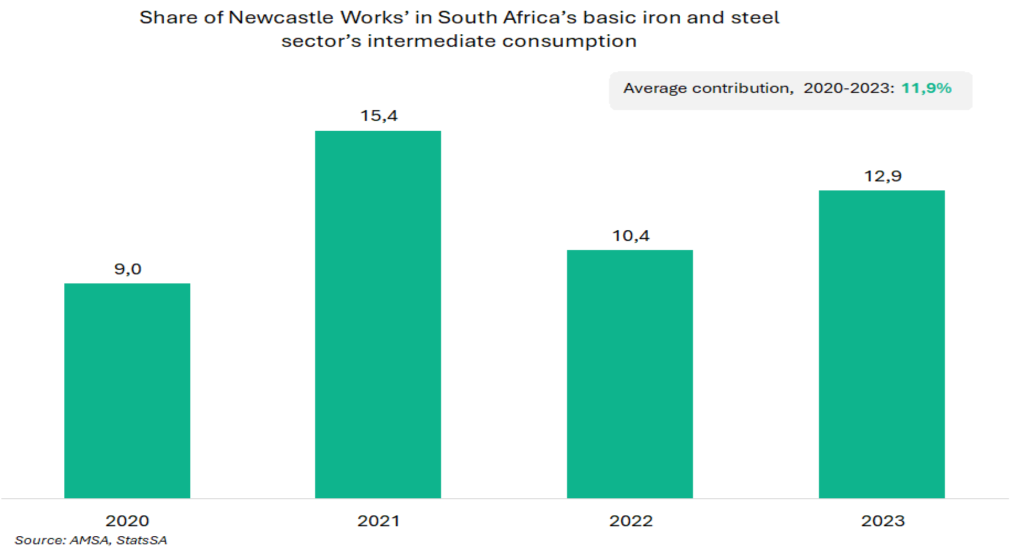
- Newcastle Works relies on many products from other sectors of the South African economy to produce long steel.
- Newcastle Works' linkages to other sectors of the economy can be illustrated by analysing the industry's intermediate consumption.[32]
- Intermediate consumption by Newcastle Works of goods and services from other linked industries totalled R12.7 billion in 2023, and **R39.3 billion over the period 2020-2023**.
- In 2023, Newcastle Works accounted for 12.9% of South Africa's basic iron and steel direct intermediate consumption.
- The potential closure of the long steel business would **significantly impact local businesses**, particularly Newcastle, which accounted for 34% of the AMSA group's total procurement in 2023. This closure would have significant social and economic effects on suppliers, communities, and local governments in KwaZulu-Natal.[33]

Table 19: Value of direct intermediate consumption by AMSA's Newcastle Works (RMillions)

	2020	2021	2022	2023	2020-23
Newcastle plant intermediate consumption	R6,862bn	R9,408bn	R10,324bn	R12,712bn	**R39,321bn**
Share of Newcastle plant in SA's basic iron & steel sector's intermediate consumption	**9.0%**	**15.4%**	**10.4%**	**12.9%**	**11.9%**

Source: AMSA, StatsSA. AMSA data is for financial years.

Chart 32



[32] *Intermediate consumption/expenditure consists of the value of the goods and services consumed as inputs by a process of production (excluding fixed assets). Intermediate consumption includes purchases and transfers-in of materials; payments to other establishments for work done; other direct factory costs; insurance premiums; rent and leasing paid; head office charges; royalties, copyright, trade names, patent rights paid; advertising; services; secretarial and administrative fees.*

[33] https://www.businesslive.co.za/bd/companies/2024-04-01-arcelormittal-lays-bare-the-effect-of-mooted-closure-of-long-steel-business/

5.7 Newcastle Works' socio-economic impact

South Africa's ongoing challenges of poverty, inequality, and limited access to quality education underscore the critical need for social investment that extends beyond the traditional profit-maximisation frameworks of companies. Recognising its responsibility as a corporate citizen, Newcastle Works dedicates additional resources to programmes that foster sustainable community development and enhance the well-being of its host communities.

In addition to its tax contributions to the South African government and its significant impact on GDP, employment, investment, trade, and income, Newcastle Works actively strengthens local economies and communities through meaningful socio-economic initiatives. These efforts reinforce its commitment to driving positive change at both a local and national level.

The potential closure of the long steel business threatens to undermine significant contributions to Newcastle's community and economy through Corporate Social Investment (CSI) and Enterprise and Supplier Development (ESD). [34]

- In 2023, CSI spending increased marginally to **R17.4 million** (from R17.3 million in 2022).
- This investment has supported impactful initiatives, including three science centres.

  These centres provided STEM education to over 24,000 learners (up from 10,251 in 2022) and 595 teachers across 241 schools (2022: 269 teachers, 162 schools). Extracurricular programmes reached an additional 33,800 community members.
- **Local procurement** efforts were substantial, with R3.6 billion (49% of all non-mining procurement) spent on goods and services sourced within a 50 km radius of its plants, supporting 195 vendors. Of these, 111 were emerging micro-enterprises, collectively receiving R874 million in business.
- The **Matlafatso incubation hub** supported eight start-ups in 2023, leading to purchase orders worth R10 million and contributing to a cumulative R272 million in orders since 2017, sustaining 189 full-time and 250 part-time jobs.
- Additional community investments included **vocational training** for 583 young people (up from 259 in 2022), road infrastructure improvements valued at R3 million, daily soup kitchen meals for 2,900 individuals, and caregiver training for 20 individuals at a cost of R120,000.
- Newcastle Works also contributed R400,000 worth of tar and labour for **road repairs**.

Despite these achievements, the closure of the long steel business could jeopardise these efforts, leading to the erosion of community relationships, the loss of local economic benefits, and diminished opportunities for local vendors and job creation.

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[34] *Source: AMSA Environmental, Social and Governance report , 2023, arcelormittalsa.com/Portals/0/ArcelorMittal South Africa 2023 ESG Final 1.pdf. These figures may also include CSI at its Vereeniging and Vanderbijlpark plants.*

5.8 Economic and socio-economic impact of the closure of Newcastle Works

If AMSA’s Newcastle plant were to close, it would have a devastating impact on South Africa's economy as a whole, as well as on the regional economies of KwaZulu-Natal, the Amajuba District Municipality, and the Newcastle Local Municipality.

The strong upstream and downstream linkages of Newcastle Works across the economy’s primary, secondary, and tertiary sectors amplify its economic impact. The mill is a significant consumer of production inputs, ranging from mining and manufacturing to services such as finance, insurance, telecommunications, logistics, transport, and warehousing (see Table 18).

The closure of the AMSA plants threatens long products operations in South Africa. AMSA’s long products operation is South Africa's only local mill capable of producing long steel from iron ore. It plays a critical role in various industries such as construction, automotive, mining, electricity transmission, rail, and wire production.

These downstream industries rely on this local supply due to its **adherence to higher quality and safety specifications**. Without this domestic supply, they will be **forced to source feedstock through imports**, which not only threatens to eliminate jobs but will also exacerbate the country's ongoing unemployment crisis, further deepening its economic challenges.

Impact on employment

The closure of AMSA's Newcastle plant will result in the loss of approximately 3,400 jobs, further exacerbating the already declining employment levels in the sector.

The Newcastle plant contributes nearly 40% of formal employment in Newcastle Local Municipality’s manufacturing sector, underscoring the devastating impact its closure would have on the town’s economy. In 2023, Newcastle Works’ direct employment accounted for 4.7% of Newcastle’s total formal employment, averaging 4.8% over the period 2019–2023.

This contribution is particularly significant in a municipality where the official unemployment rate is around 32%, and the expanded unemployment rate, which includes discouraged workers, is close to 43%. Additionally, 45% of Newcastle Municipality’s population faces food poverty.

The direct employment impact does not take into account the large number of jobs created in other sectors of the economy (e.g., mining, transport, and manufacturing) through the Newcastle plant’s multiplier impact in the economy.

The South African Iron and Steel Institute (SAISI), whose membership includes the big steel manufacturers and some associate members, reports that the sector supports approximately 290,000 jobs (economy-wide) in the country.[35]

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[35] *Source: IOL, SA’s big steel producers struggling ‘to keep lights on’*

In a recent article, SEIFSA[36] estimates that **each formal job in the total steel sector in South Africa supports between seven and ten people**, amplifying the potential social and economic fallout of the plant's closure.

In the steel and engineering sector, 80% of employed individuals work in downstream industries, while 20% are employed in upstream industries. Job losses in the steel sector have primarily affected downstream industries, which have accounted for 60.2% of total job cuts since 2008. These losses highlight the sector's vulnerability, with most employment reductions concentrated in downstream industries.

Consequently, the **plant closure will also have a significant impact on downstream employment, where the majority of workers are based.**

With the direct loss of 3,400 jobs from the AMSA plant closures and factoring in the employment multiplier, estimates are that the total number of **direct and indirect job losses in downstream industries could reach 60,000-80,000**.[36] Given South Africa's already unsustainable unemployment rate, this outcome is one the country cannot afford.

Summary of impact

A summary of the high-level direct impact of the closure of the Newcastle plant on Newcastle LM's economy is set out below.

Table 20: Estimated direct economic and socio-economic impact of the closure of Newcastle Works*

	Impact on Newcastle's total economy	
	Value/number	**% Contribution***
Direct loss of total GVA	-R3.5bn	-11.4%
Direct loss of the manufacturing sector's GVA		-63.6%
Direct employment* **	-3,400 jobs (2024)	-4.7%
Direct employment in the manufacturing sector* **		-37.1%
Compensation of employees (permanent)	-R859m	-5.5%
Compensation of employees in the manufacturing sector		-35.2%
Expenditure with SA companies /intermediate consumption	-R12.7bn	-12.9%**
Manufacturing output	-R12.9bn	-64.3%
Corporate Social Investment (CSI)	-R17,4m +	-

* *Based on 2023 data.*

*** Impact on basic iron and steel sector intermediate consumption.*

+ Includes CSI at other AMSA plants.

**** Excluding the downstream jobs that will be lost.*

[36] *Sourced from SEIFSA, https://seifsa.co.za/steel-and-engineering-sector-on-the-precipice-of-an-unprecedented-jobs-crisis/. Some estimates are higher at 100,000: https://dailyinvestor.com/south-africa/73604/government-looking-to-3500-arcelormittal-jobs/*

6 CONCLUSION

1. South Africa's Steel Industry at a Crossroads

This report underscores the alarming decline in South Africa's steel production and the broader signs of **deindustrialisation** affecting the national economy. Over the past two decades, South Africa has seen its basic iron and steel production plummet from a peak of 9.7 million tonnes in 2006 to 4.9 million tonnes in 2023.

During the same period, the industry's contribution to GDP fell from 0.8% in 2010 to just 0.3% in 2023, while employment in the sector shrank by nearly half, from over 47,000 jobs in 2010 to below 26,000 in 2023.

The factors driving this deindustrialisation include sluggish domestic economic growth, electricity shortages, inefficiencies at state-owned enterprises like Transnet, rising input costs, skills shortages, poor policy implementation and uncertainty, and growing global competition, particularly from China. These challenges have eroded South Africa's manufacturing base, with steel being among the hardest-hit sectors.

While the government's efforts to foster local beneficiation through the PPS and export taxes are well-intentioned and aimed at ensuring domestic scrap availability, these policies have had **unintended market-distorting consequences and carry significant opportunity costs**.

These measures have distorted the market, reduced the value of scrap metal, and imposed economic burdens on recyclers and scrap collectors.

Moreover, they have exacerbated overcapacity in the steel industry, undermining the sustainability of primary steel producers critical to high-quality manufacturing.

Given the urgent need for re-industrialisation to drive economic growth, create jobs, and address South Africa's unemployment crisis, **policies like the PPS and export taxes must be revisited**. Effective and balanced interventions are essential to stabilise the steel industry, restore competitiveness, and ensure its continued contribution to the economy.

2. Economic Impact of Scrap Policies and Opportunity Costs

The introduction of the PPS and export tax policies has significantly affected South Africa's scrap and recycling industries, resulting in unintended economic consequences and substantial opportunity costs.

Impact of tax policies on the scrap metal industry

- The volume of **scrap metal exports** has plummeted, with ferrous waste and scrap exports declining by 91% between 2012 and 2023, while export values dropped by over 80% during the same period.
- Local **scrap metal prices** have remained below international levels since 2016. The PPS policy enforces a discount on local scrap prices compared to international market prices, directly reducing the cost of scrap for domestic buyers, including mini-mills. While these lower prices benefit downstream users, they jeopardise the long-term viability of upstream industries such as primary steel production.

Opportunity Costs for the Recycling Industry

The PPS and export tax policy interventions have suppressed the economic potential of South Africa's recycling industry.

- **Lost employment potential:** The current scrap policies reduce profits and income for scrap collectors and recyclers and reduce employment in these sectors by effectively subsidising the users of scrap metal. Formal sector jobs fell from 15,000 in 2010 to just over 9,600 in 2023. The jobs of thousands of informal waste pickers, who play a critical role in the country's recycling efforts, have also been adversely affected.
- **Missed Export Opportunities and Revenue:** While the decrease in scrap export volume benefits domestic users of scrap (e.g., mini-mills), it represents a lost opportunity for the recycling industry, as metal scrap recyclers could have exported their scrap directly and earned higher revenue from international markets. If, for example, 70% of all types of scrap metal was exported, South Africa could have earned over R34.6 billion in 2023 - an amount exceeding the total turnover of mini-mills.

  The analysis shows that if an additional two million tonnes of ferrous scrap had been exported at 2023 prices, South Africa could have generated an extra R20 billion in export revenue, rising further under international price conditions.
- **Lost Turnover and Value Addition:** The estimated turnover of the recycling industry could have been R13.5 billion higher in 2023 without the PPS policies, while output, value-added, and the gross operating surplus would have seen significant growth, highlighting how the interventions suppressed potential growth in the sector.
- **PPS Discount Value and Its Impact on Earnings:** The estimated PPS "value" for iron and steel scrap has grown considerably, from under R1 billion in 2014 to R9 billion in 2023, redirecting earnings away from industries and waste pickers. This implies substantial cost savings for mini-mills.
- Newcastle Works might indirectly experience adverse effects from these broader economic impacts, such as reduced availability of high-quality scrap or fewer incentives to improve operational efficiency.

3. Unequal 'playing field'

- Mini-mills that primarily use scrap as input benefit unfairly from lower input costs due to PPS and export tax incentives, compared to primary steel producers that rely on unsubsidised iron ore for high-quality steel production.
- **This is reinforced by the estimated PPS "value" for long steel products, calculated at between R4.15 billion and R6.4 billion in 2023 based on production volumes.** This aligns with the significant growth in PPS-related savings for mini-mills over the years.
- Furthermore, low-value-added metal products such as billet are produced by mini-mills, and although they receive the benefit of the lower input costs (due to the PPS policy), these exports don't attract any export tax (but potentially reduce economic value through lower prices).
- This unfairly supports income and profits for mini-mills or creates market distortions where mini-mills can sell their products at lower prices.

4. Mini-Mills' Performance and Output and Reliance on PPS

The PPS has disproportionately benefitted mini-mills, effectively acting as a subsidy to sustain their profitability despite uncompetitive conditions. Despite the PPS, the total output of mini-mills declined slightly from R14.6bn in 2020 to R13bn in 2023. However, the PPS subsidy cushions their financial performance, as evidenced by the increase in employee compensation (from R1.4 billion in 2020 to R1.7 billion in 2023) and the retention of approximately 4,500 jobs.

In 2023, mini-mills contributed R2.6 billion in GVA but relied heavily on the PPS to maintain viability.

The analysis reveals that without the PPS "subsidy" (calculated at a 30% discount or based on the price difference between South African and East Asian scrap prices), mini-mills would face negative operating surpluses, highlighting the distortionary effects of the current policy framework and their heavy reliance on the PPS to remain viable.

Additionally, the GVA for mini-mills during 2021–2023 would be negative without the PPS, underscoring that the subsidy effectively supports their profitability.

5. Cost Pressures on Primary Steel Producers

- Electricity costs for the industry increased by 256%, from R2.4 billion in 2010 to over R8.5 billion in 2023. At the same time, raw material purchases rose by 56%, from R48.3 billion to R75.4 billion. These rising costs disproportionately impact primary steel producers like Newcastle Works, which rely on large-scale operations, economies of scale and energy-intensive processes.
- In contrast, mini-mills, which use electric arc furnaces and rely heavily on scrap metal, benefit from lower scrap input costs due to the PPS policy.

6. Limited Benefit and Economic Impact[37] on Newcastle Works

- As a primary steel producer, Newcastle Works is less reliant on scrap metal than mini-mills. Its operations are likely more dependent on raw materials like iron ore and coal, meaning the PPS's advantages, such as reduced scrap prices, do not significantly lower its production costs.
- Newcastle Works does not benefit significantly from the PPS because its cost structure is driven more by electricity, transport, raw materials, and operational efficiencies than by scrap prices. Rising costs in these areas have eroded its profitability, as reflected in the industry's declining employment and reduced economic contribution.
- The analysis suggests that the PPS policy does not address the challenges faced by primary steel producers and disproportionately supports mini-mills. As a result, Newcastle Works appears to have been adversely impacted by broader industry trends.
- The imminent closure of AMSA's Newcastle Works, triggered by the fallout from the PPS policy that disproportionately benefits mini-mills, would have devastating consequences for South Africa's economy, particularly in the KwaZulu-Natal region. The plant's closure would result in the loss of significant GVA,

[37] *The report indicates that the basic iron and steel industry is treated as a single entity in social accounting matrices (SAMs), making it challenging to isolate the impacts of the PPS on mini-mills versus primary producers like Newcastle Works. Adjustments to the SAM would be required to quantify the differential impact.*

approximately R3.5 billion, and disrupt essential manufacturing output, including 11% of South Africa's basic iron and steel production.

The closure of Newcastle Works would dismantle critical supply chain links and disrupt inter-industry connections, particularly in key industries such as construction and infrastructure, transport/automotive, mining, and energy.

The plant's contribution to 35% of the country's long steel demand and its role in the mineral beneficiation process, which adds significant value to iron ore, would be lost, causing widespread economic disruptions.

Additionally, the loss of essential logistical services for transporting raw materials and finished goods would further exacerbate these disruptions. Furthermore, with a third of steel production in South Africa being unique to ArcelorMittal, the closure would force industries reliant on high-quality long steel to depend on costly imports, thereby undermining local industrial competitiveness and weakening the resilience of the supply chain.

- This would weaken the country's industrial base, exacerbate supply chain disruptions, and increase reliance on costly imports. In addition, the closure would lead to the loss of 3,400 direct jobs at the plant, with an estimated 80,000 additional job losses in related industries, further deepening unemployment and poverty in an already vulnerable region.
- The closure would also have severe social and economic repercussions, including the loss of local business contracts, wage reductions, and a decline in corporate social investment. The loss of procurement spending and local economic activity would further destabilise the region, and the increased burden on social grants and unemployment insurance would place additional pressure on government resources.
- This situation underscores the urgent need for policy reforms to support the steel industry and protect local economies from further harm.

7. Summary

The analysis clearly shows that the PPS disproportionately benefits mini-mills and not Newcastle Works.

The PPS policy plays a critical role in sustaining the profitability of mini-mills by significantly lowering their input costs. However, this places primary producers like Newcastle Works at a disadvantage, as they do not benefit from reduced scrap prices and face persistent rising production costs and declining profitability.

This creates a notable competitive imbalance within the steel industry, where scrap-focused policies appear to disproportionately favour mini-mills at the expense of primary producers.

As it currently stands, the policy framework risks entrenching this disparity, leaving Newcastle Works and other primary producers increasingly disadvantaged. Addressing this imbalance is crucial to ensuring a more equitable competitive environment within the sector. [38]

[38] *Conducting further detailed research, including adjustments to the SAM to focus on industry-specific impacts, would provide more precise quantification of these differential effects and inform more balanced policy interventions.*

Table 21[39]: Estimated High-Level Costs vs. Benefits of Maintaining and Scrapping of PPS and Scrap Export Policy

	Metal Waste and Scrap Collectors *(~very high probability)*	**Mini-Mills Worst-case scenario** *(~very low probability of all min-mills closing)*	**Primary Steel Producer – Newcastle Works** *(~very high probability)*
	Impact of Maintaining Current PPS & Scrap Export Policy	**Impact of Scrapping Current PPS & Scrap Export Policy**	**Impact of Maintaining Current PPS & Scrap Export Policy**
GVA Impact (direct)	-R3.2bn	Potential - R2.6bn *if* all mini-mills close.	**- R3.5bn** ≈ -11.4% of Newcastle's total GVA
Employment Impact	Formal employment: **-6,000** (2010–2023). Tens of thousands of informal waste picker jobs lost.	Around 4,500 direct jobs could be lost *if* all mini-mills close.	**-3,400 direct jobs** ≈ **-4.7%** of Newcastle's formal employment ≈ **-37.1%** of Newcastle's manufacturing jobs ≈ **-60,000 to 80,000 downstream jobs**
Earnings/Wages	**-R1.8bn** compensation of formal employees Lower earnings for informal recyclers.	-R1.7bn in compensation of formal employees, *if* all mini-mills close	**-R859m** in wages (2023) ≈ **-35%** of Newcastle's manufacturing workforce income.
Procurement and Supply Chain Impact	Reduced contributions to local and regional recycling economies.	- R10.4bn in intermediate consumption, *if* all mini-mills close. Loss of value transfer to international consumers.	**-R12.7bn** spending with up-and-downstream companies (2023) ≈ **-12.9%** of iron & steel industry's intermediate consumption **-R3.6bn** in local procurement spending **-R874m** for regional micro-enterprises (SMMEs) and vendors.
Community and Social Investment	n/a	n/a	**-R17m** in CSI spending for host community in Newcastle.
Industrial Base Impact	n/a	Reduced financial viability of mini-mills; potential closures weaken the sector: -R13bn in output, *if* all mini-mills close	**-R12.9bn** in output: Weakening of SA's industrial base ≈ **-11%** of SA's iron & steel manufacturing ≈ **-64%** of Newcastle's manufacturing output.
Unique Steel/ Import Impact	n/a	n/a	Key industries will have to rely on costly imports for specialised steel; undermines SA's competitiveness.
Other	n/a	IDC could lose capital investments in mini-mills.	Disruption to supply chains in key sectors like construction, automotive, mining, and energy.

The solution is not to burden one industry to support another but instead to support an environment where the economy can grow at much higher rates, increasing demand and job creation. It is essential to reduce costs while improving efficiency and productivity, especially at state-owned enterprises like Eskom, Transnet, and the ports.

Policies can also focus on reducing international imports in cases where there are clear signs of dumping of products that are also locally produced. Downstream activities, as well as export markets, can be further developed.

Broader industrial and infrastructure-driven policies are required to tackle these structural challenges comprehensively. Revisiting these policies presents an opportunity to recalibrate the system to ensure all players can thrive.

Solutions that balance the interests of primary producers and mini-mills are essential to ensuring a sustainable and competitive steel sector for South Africa, and collaboration with the government remains a priority.

A recalibrated approach would safeguard the long-term viability of primary steel production, protect the critical infrastructure relied upon by industries such as mining, construction, and manufacturing, preserve thousands of jobs, and promote a more sustainable and competitive steel industry for South Africa.

These findings underscore the urgent need for a reassessment of South Africa's scrap and recycling policies to mitigate economic losses, restore balance in the steel sector, and unlock the industry's full potential.

[39] *Further studies would need to be conducted to determine the net difference in economic impact pre- and post-policy.*

APPENDIX A

Table 22: Estimated production of long steel products and PPS ‘values’

	Scrap price East Asia CFR - MHS 1/2 80:20 $/mt	Scrap East Asia rand per ton	Scrap prices given PPS discount (R/ton)	Discount for mini mills (rand per ton) at 30% discount	South Africa domestic scrap price 201 (ZAR/t)	SA scrap price discount to East Asia Scrap price	Discount for mini mills (rand per ton) given SA scrap price discount to	Estimated long steel for domestic market (excluding AMSA), ton	Estimated scrap required for domestic production, ton	Estimated 'value' of PPS for domestic long steel (R millions)	AMSA long steel exports (tons)	Total SA long steel exports	SA long steel exports (excluding AMSA)	Estimated scrap required for export production, ton	Estimated 'value' of PPS for long steel exports (R million)	Estimated 'value' of PPS on long steel products of 30% (R millions)	Estimated 'value' of PPS on long steel products given SA scrap price discount to East Asia	Estimated AMSA scrap used for production of long products (tons) (assumed 20% scrap	Estimated AMSA benefit given 30% PPS (R millions)	Estimated AMSA benefit given scrap price discount to East Asia
2015	227	R2 900	R2 030	R870	R2 320	20%	R580	513 200	563 956	R491	327 855	575 342	247 487	271 964	R237	R727	R485	316 134	R275	R183
2016	234	R3 434	R2 404	R1 030	R2 306	33%	R1 128	455 058	500 064	R515	173 629	479 316	305 687	335 920	R346	R861	R943	294 484	R303	R332
2017	306	R4 066	R2 846	R1 220	R3 129	23%	R937	724 000	795 604	R970	312 241	771 935	459 693	505 157	R616	R1 587	R1 218	273 596	R334	R256
2018	359	R4 751	R3 326	R1 425	R3 546	25%	R1 205	691 000	759 341	R1 082	299 023	860 935	561 911	617 485	R880	R1 963	R1 660	302 344	R431	R364
2019	300	R4 327	R3 029	R1 298	R3 265	25%	R1 062	695 000	763 736	R991	550 308	1 076 158	525 850	577 858	R750	R1 742	R1 425	314 921	R409	R334
2020	295	R4 851	R3 396	R1 455	R3 271	33%	R1 580	835 779	918 439	R1 337	203 204	581 251	378 046	415 436	R605	R1 941	R2 108	162 996	R237	R258
2021	491	R7 258	R5 081	R2 177	R4 225	42%	R3 033	927 200	1 018 901	R2 219	171 816	588 216	416 400	457 583	R996	R3 215	R4 478	198 575	R432	R602
2022	465	R7 612	R5 328	R2 283	R4 146	46%	R3 466	845 060	928 637	R2 121	176 065	656 970	480 905	528 467	R1 207	R3 327	R5 050	177 025	R404	R614
2023	403	R7 438	R5 207	R2 231	R3 988	46%	R3 450	827 631	909 485	R2 029	260 444	943 405	682 960	750 506	R1 675	R3 704	R5 727	201 821	R450	R696
2024YTD	372	R6 804	R4 763	R2 041	R4 550	33%	R2 254	845 618	929 250	R1 897	211 212	770 401	559 189	614 494	R1 254	R3 151	R3 479	162 173	R331	R366

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