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7 December 2020

Ms L Herbst

The Department of Trade Industry and Competition

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Dear Linda

COMMENTS ON THE PROPOSED EXTENSION TO 30 JUNE 2021 OF THE POLICY DIRECTIVE ON THE EXPORTATION OF FERROUS AND NON-FERROUS WASTE AND SCRAP METAL

This submission is being made on behalf of the Metal Recyclers Association of South Africa, regarding the above proposed extension, gazetted on 23 November 2020.

The Taxational Laws Amendment Bill provides for an amendment to the Customs and Excise Act with effect from 1 March 2021, which would allow export duties to be imposed on any product and the export duties on scrap metal to actually be imposed on 1 April 2021.

The proposed amendment we are commenting on would have the Preferential Pricing System (PPS) running simultaneously with scrap metal export taxes, which would have a catastrophic impact on the metal recycling sector. There is also no indication that the Minister will not again extend PPS beyond 30 June 2021. In fact, there is a long history of repeatedly extending the PPS, so this is a valid concern.

Why is it a problem to implement PPS and export duties simultaneously?

The Minister, as the author of PPS, of course understands the principles behind PPS well. However, a brief summary is important to place on record.

The PPS is inextricably linked to export control, with export control being the enforcement mechanism for PPS. A metal recycler wishing to export, say, ferrous scrap, has to first make this scrap available to the local consumers at the prescribed levels set by PPS for each category of scrap metal. The PPS discount level in our ferrous example is 30%, but the ferrous scrap will be attracting a 20% export duty at the same time. If an offer is made by a consumer at the PPS price or higher, an export permit will not be granted.

If no offer is received or the offer is lower than PPS, then a permit would be issued, but now the recycler will be faced with an export duty. Bear in mind, the export duty is paid even if the recycler received no interest when the export application was circulated to local consumers, so the impact on margin is significant. In the past, if the export permit was granted, the recycler would export the scrap at the best price they could achieve. If both PPS and export duties were



in operation, there would be no ability to make up the suppressed local sales margins with improved export margins. The combination of both PPS and export duties will serve only to reduce the margins of recyclers and smaller recycling companies would disappear from the landscape.

This would directly affect the livelihoods of the 300 000 scrap collectors and the profits of factories generating scrap. It would also remove the lower value scrap metals from the recycling stream and send them to the landfills.

Export duties were meant to replace PPS

I refer to paragraph 7.1 of the "Draft Explanatory Memorandum on the Draft Laws Amendment Bill, 2020", dated 31 July 2020:

II. Reasons for change

*The PPS seems not to have provided sufficient support such that the sector can flourish in competition with global counterparts, many of which benefit from an export tax on scrap and lower domestic prices for scrap. The Minister of Trade and Industry therefore directed ITAC, in terms of section 18 of the ITA Act, to investigate and advise him whether it would be appropriate to **replace** the existing PPS regulating the exportation of ferrous and non-ferrous waste and scrap metal with an export duty on scrap metal. **ITAC conducted its investigation and based on the findings, recommended that the current PPS be replaced with export duties** since it has not effectively provided support to the foundries and mills with availability of affordable, quality scrap metal. An export tax is considered to be superior to the PPS in terms of its easy administration and generating funds to assist in its policing. In addition, it should be more effective in reducing the domestic price as it will have the effect of reducing the export price achieved by local scrap dealers unlike the PPS (Own emphasis)*

This intention of replacing the PPS with export duties pervades much of the correspondence and proposals around the export tax. **There was clearly never any intention to have both systems co-exist as this would suppress the margins of scrap recyclers to a point where many will no longer be viable.**

It has relevance, so I attach the submission we made to ITAC on Friday, 4 December 2020.

If you combine the proposed amendments to the export control guidelines published by ITAC, where for example, scrap metal can only be exported breakbulk, with what is proposed in this proposed extension of PPS, the impact on the recycling industry would be devastating

We request the Minister amend his extension to have PPS end at the same time as the export duties are implemented, with no overlap between the 2 systems.

Kind regards

A handwritten signature in black ink that reads "Donald MacKay".

Donald MacKay
Director

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