

Mr Dumisani Mbambo
Deputy Chief Commissioner
ITAC



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Dear Dumisani

RE: "Proposed export duty on ferrous and non-ferrous waste and scrap".

Hope you are well.

The abovementioned topic refers as tabled in the government gazette of 18 October 2019.

NAACAM supports the proposal, but notes certain concerns as raised by members.

The content below lays out reasons for support and the concerns raised.

Support:

- The processing of scrap metal as a raw material is key to the industry's long-term efforts to deepen localisation, and contributes towards achieving a country localisation level of 60% by 2035
- There has been a long-term trend of hollowing out in the tier 2 metal fabrication base of component manufacturer. It is these companies who are also significant users of scrap metal as an input.
- The SA automotive masterplan identifies powertrain components as a specific segment that needs greater support and new technology introduction in South Africa. It is this segment where scrap metal supply at competitive levels and secure availability will be beneficial
- There is an overall trend of SA being a net exporter of scrap metal, and correspondingly a net importer of components that have been processed out of scrap.
- Due to challenges with the policing and implementation of the Preferential Price System (PPS) it has not had the desired impact of supporting greater beneficiation in SA. This proposal should be easier to implement and control in theory.
- The measure will support members who have invested in scrap recycling and beneficiation projects. Aluminium, and stainless steel are both cases in point, where SA has significant auto specific capability.
- With material costs often passed over to the customer (OEMs) it is expected that if the export duty results in more price competitive material supply, OEM purchasing teams would have reason to identify a wider range of metal-based components for localisation at tier 1 level.

Concerns:

- It is possible that existing trade relationships like EU EPA will negate the intent of the policy.
- Unless authorities have true monitoring and implementation capability, scrap dealers will find loopholes eg the processing of scrap into shapes or forms that are not identified as scrap.
- Scrap dealers should be prohibited from passing on the tax to their component producing customers, thus “forcing” them to sell to the local mills. If this does not happen then all it means is higher input costs than is currently the case, given that PPS at least has a discounting mechanism.
- The inability to export scrap at global price demand may negatively impact high volume producers of scrap such as vehicle assemblers and some component manufacturers, and raise concerns at global head-office levels on overall SA business case.

The above is a summation of key points received in feedback. On the balance of evidence NAACAM re-iterates its support of the proposal, but requests the concerns are noted and considered.

Feel free to contact me if further information is required.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R.M.', with a horizontal dotted line underneath it.

Renai Moothilal
Executive Director