



Ferro Alloy Producers Association of South Africa



FAPA
FERRO ALLOY PRODUCERS' ASSOCIATION

Who is FAPA:

The Ferro Alloy Producers Association (FAPA) is an industrial association of ferroalloy smelting operations involved in the beneficiation of South Africa's ores and minerals into ferroalloys for local consumption and export markets. This beneficiation step is the key factor of the whole valuation chain and should be a key focus point of governments across the world. FAPA members are typically involved in the production of ferromanganese (FeMn) and silicon-manganese (SiMn) from manganese ores mined in the Northern Cape, ferrochrome (FeCr) from chromite ores mined on the eastern and western limbs of the Bushveld Igneous Complex, silicon alloys (Silicon-metal and Ferrosilicon) from local silica quartz, and the production of calcium carbide (CaC₂) from limestone. These industries have been the backbone of the metallurgical industry within the country and at a stage, had been the leaders in global production of specifically manganese and chrome alloys. Although the industry has suffered severely from increased power prices and strong Asian competition, the Association remains firm in its strategic intend.

Our Purpose:

The Organisation exists due to the common interest we share as South African producers with regard to enhancing our Beneficiation Technology in South Africa and by virtue of subscribing to common Government Legislative requirements like Environmental Legislation, Safety Regulations as well as critical beneficiation inputs such as Electricity Supply. We campaign strongly to ensure the survival of this key industry and ready to expand back to full capacity in order to ensure maximum local beneficiation, associated with local job creation as prescribed in the National Development Plan. We also strongly support the newly promulgated Integrated Resource Plan of the government that recognizes local beneficiation as a key industrial step for economic revival.



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The Importance of our Industry:

As is well-known, South Africa is endowed with mineral resources, which amongst many others include Manganese, Chrome ores, and Quartzite, the mining and exporting of which contributes considerably to the economy of South Africa. The further beneficiation of these minerals into basic metals and ferroalloys, the process in which the metallurgical or smelting industry is involved, is an important value-adding component to the minerals value chain with a considerably larger multiplier effect than the mining of the associated mineral. As much as 80 – 90 % of all ferro-alloys being produced locally at smelters are being exported, making the smelting industry an important earner of foreign revenue to the South African economy.

This sector of the South African business accounts for approximately 30% of the world's Ferro-Chrome production and a significant amount of the world's Ferro-Manganese capacity as well as other alloys such as Silicon Metal capacity. Other industries that consume products produced by FAPA are directly dependent on this Sector and local raw material suppliers (Coal, Anthracites, Coke, Ore Minerals, Steel) are also reliant on our Sector. The smelter industry is a provider of well-skilled and well-paid jobs, an essential earner of foreign revenue, and a potential driver for building and developing wealth in South Africa in line with the National Development Plan. At the same time, the smelter industry is also an important baseload consumer of electricity from Eskom. The smelting industry is also a valuable 'reserve' source of power during times of high demand, as load reductions at the smelters immediately make power available that is utilised somewhere else on the network and reducing the need for Loadshedding.

The smelting of the metallurgical industry almost exclusively operates outside the larger metropolitan areas with many smelters concentrated in North-West, Mpumalanga, and Limpopo. Often the whole economy of an area is almost exclusively dependent on the operation of these smelters within the area, with Rustenburg, Witbank, and the Steelpoort Valley being good examples.³



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Members

samancor 

GLENCORE



Ferroglobe
Silicon Smelters



ASSMANG



RICHARDS BAY ALLOYS
INNOVATIVE EXCELLENCE



 **DMS POWDERS**



Position of RSA Smelters

Why are the South African Smelters closing down – electricity accounts for 30 to 60% of their production costs.

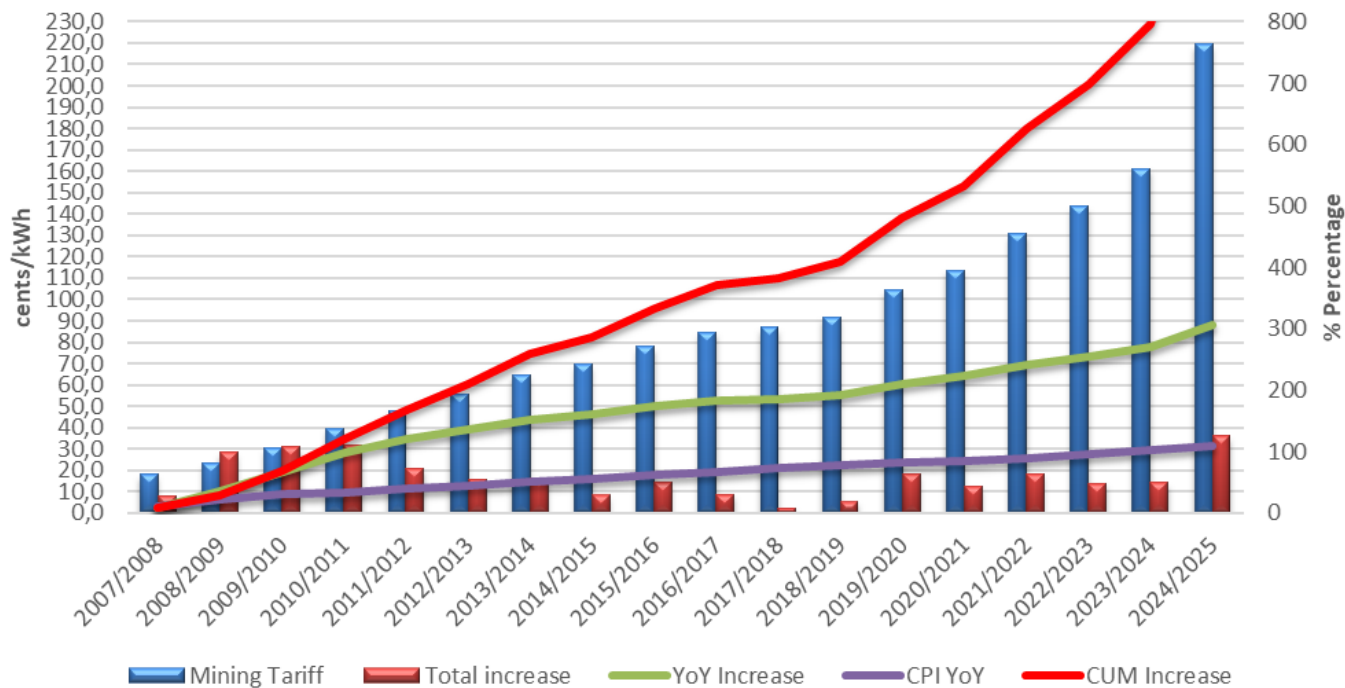
The results are devastating:

- Thousands of direct and indirect job losses
- Loss of foreign revenue
- 10% Loss in Eskom revenue
- Loss of taxes to government
- Loss of 24/7/365 baseload consumers
- Snowball adverse effect on electricity prices
- Loss of local beneficiation capacity, which is in contrast to the IRP.

Closed or Moth-balled last decade:

Metalloys, SACC, Machaddodorp, RBA, Mogale, Lydenburg, Rustenburg, Assmang Cato Ridge, Siltech and various steel mills

Eskom Mining Tariff Evolution

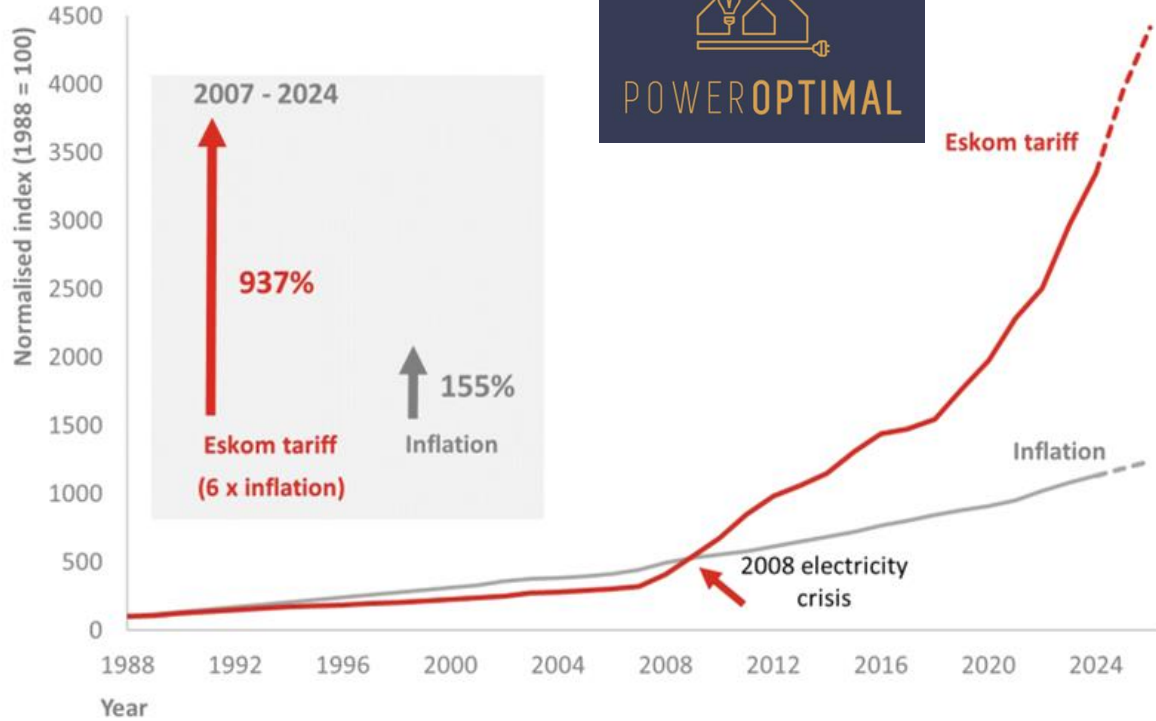


It is not sustainable to see tariff hikes at 6X – 8X CPI
Since 2007, tariff increased by staggering 800% and CPI 103%
Where can there be room for MYPD6’s 60% increase?
Eminent closure of many smelters **without NPA**

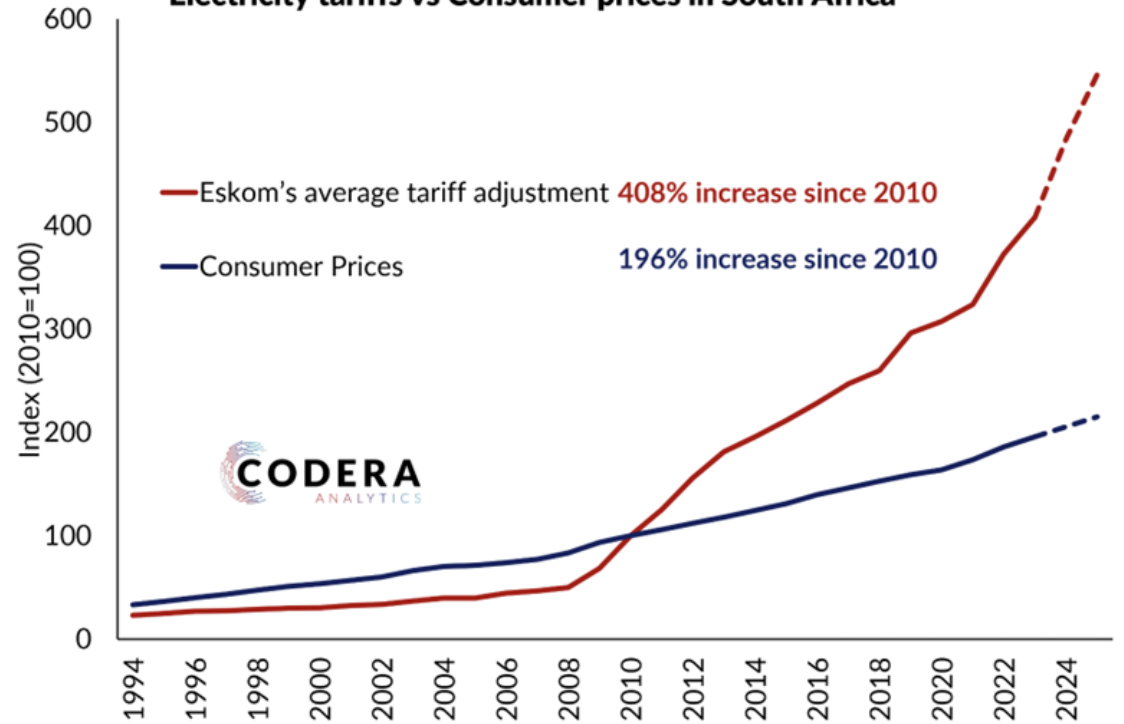


Position of RSA Smelters

Eskom average tariff vs. inflation (CPI)



Electricity tariffs vs Consumer prices in South Africa



Source: Eskom Tariff books, Stats SA, EconData, SARB latest CPI forecast, Codera Analytics.



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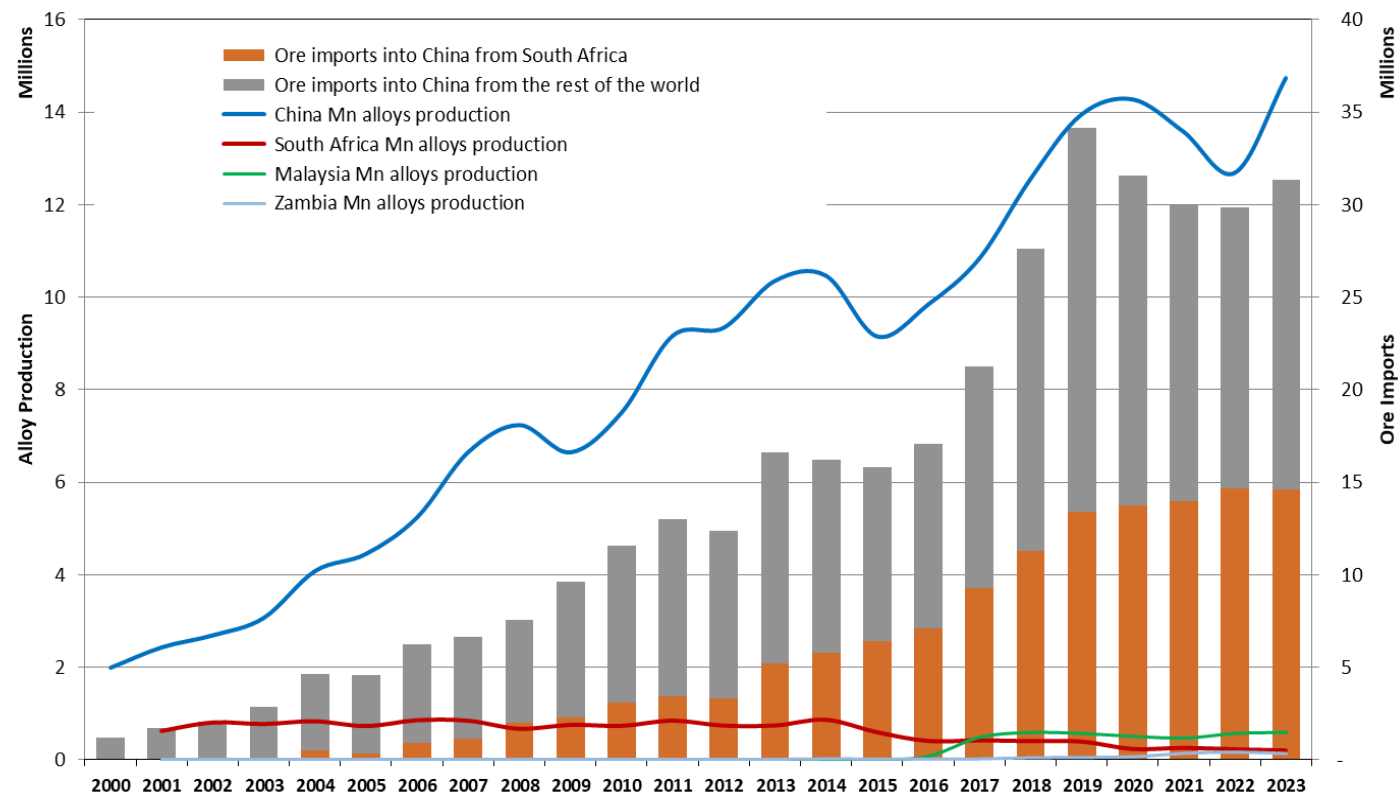
Ferro Manganese

China has built a massive Mn-alloys industry based on imported ore (+30 % of imports come from SA), while SA's production of Mn alloys has declined further since 2019.

Although imports into China declined since 2019, there has been a turnaround again since 2022.

South Africa is the largest global producer of Mn Ore, with +/-70% of world reserves, yet has one of the lowest production rates of manganese alloys and this is visible through the various Mn smelters that has closed down in the last decade.

China's Mn Ore Imports vs Mn Alloys Production
2000 - 2023



Source: GTIS, IMnI



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Ferro Manganese

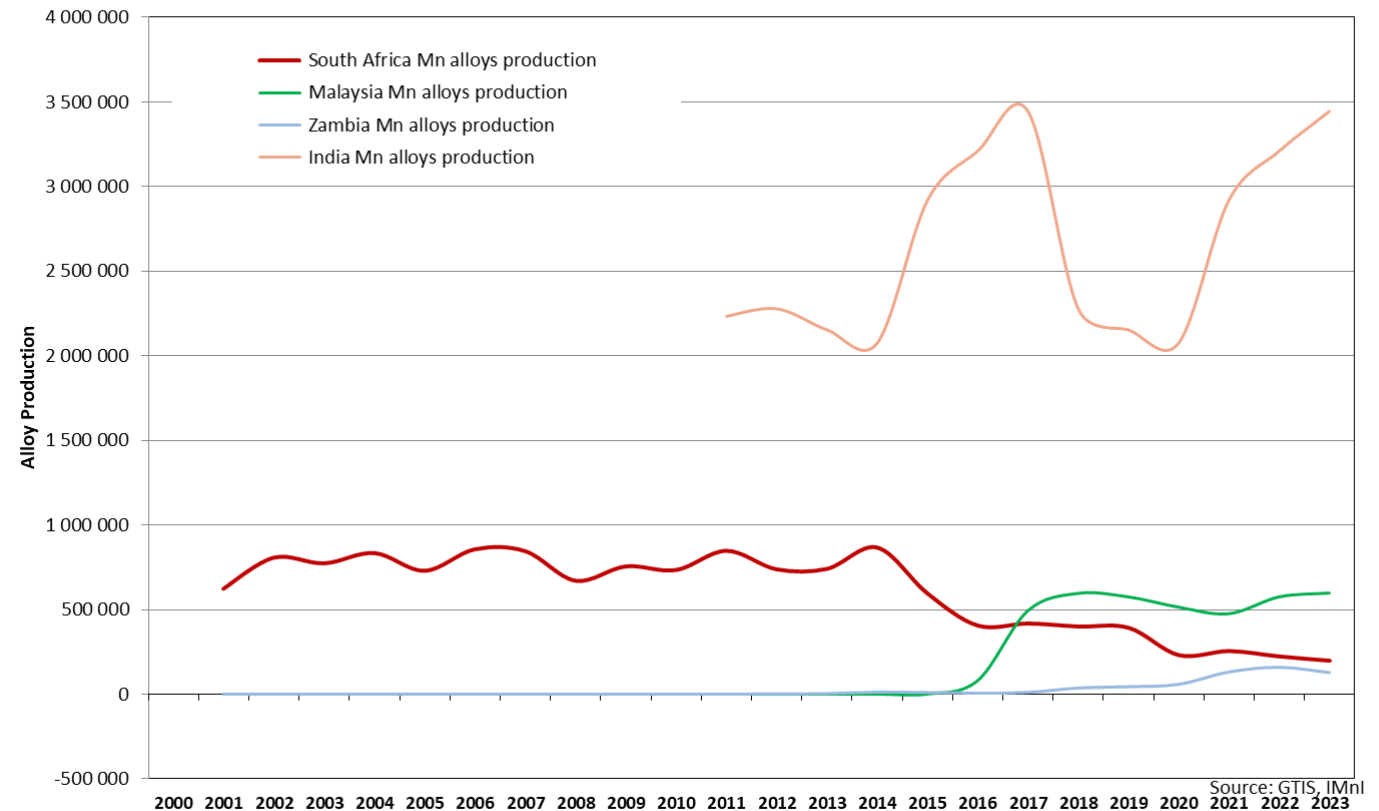
We also see a sharp increase in exports destined to India and this has become substantial since 2020, which is confirmed by their beneficiation volumes with SA ores.

With only 2 Mn smelting facilities remaining within SA, can we really afford to let this opportunity in local beneficiation disappear with the associated lost jobs?

Another emerging production hub is Malaysia, which only started with production in 2016.

Mn is classified as a critical mineral in several countries, should it not be treated the same in SA?

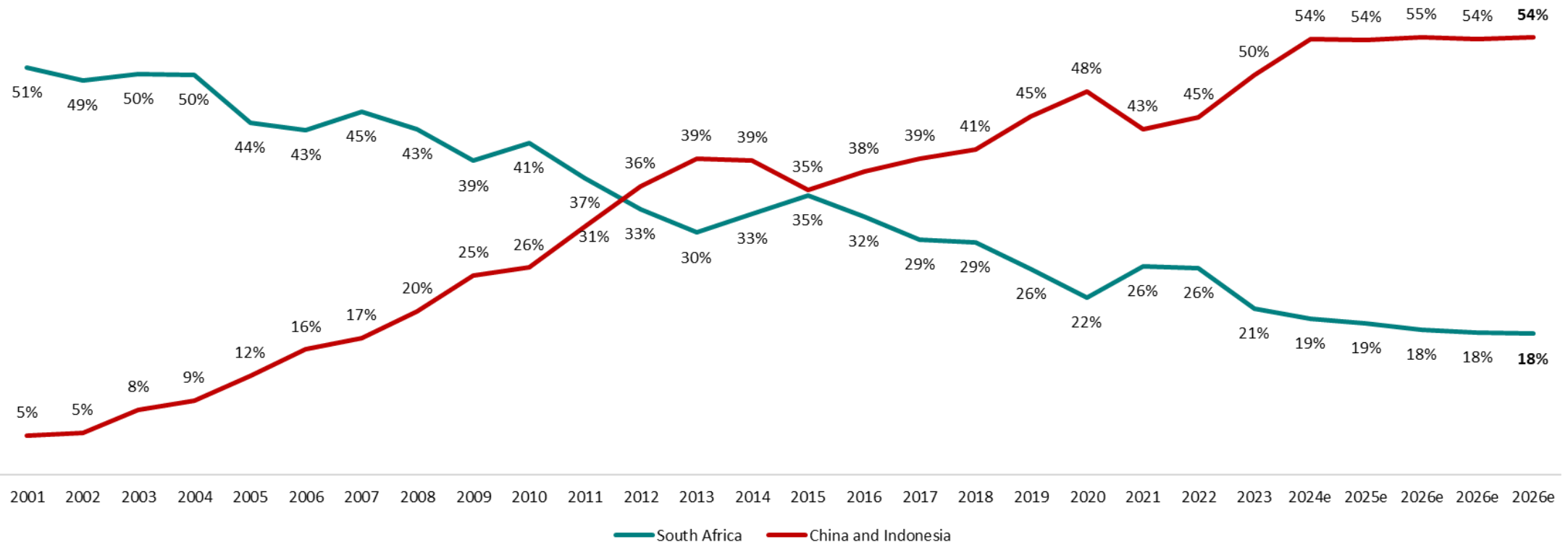
South Africa, India, Malaysia & Zambian Mn-alloys Production
2000 - 2021





Ferro Chrome

Global Market share - Ferrochrome production



China surpassed SA as the largest ferrochrome producing country in the world using SA ores and this gap is predicted to increase more. Loss of 32% beneficiation capacity in 25 years.



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The Playing Field

Electricity pricing together with the **failure of Government to protect local beneficiation or support employment generation** and expansion investments, have simply rendered most of our **industry as uncompetitive**. This death spiral has been raised and **discussed with regulators for years** and it was only a matter of time that uncontrolled price increases would lead to **demand reductions**, with subsequent economic impact on both our members and the greater South African economy.

As the cost of power in the Ferroalloys industry represents in the region of **50% of our members' total production costs**, the impact of compounded electricity increases has placed our members in an **internationally uncompetitive position** where commodity prices are fixed on global indexes.

In addition to the uncontrolled electricity pricing increases, various other factors such as the ongoing **imposition of cross-subsidies** (in its various formats) and **implemented carbon tax**, has resulted in important baseload consumers, like our members, downscaling their operations and in many cases, business rescue or full liquidation.

We need competitive international pricing expressed in \$/MWh as we are at the top-end of the production cost curve.



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Stakeholder Questions

Eskom's performance during 2022 and 2023 financial years were dismal in terms of performance, especially regarding **electricity availability, burning of diesel and loadshedding**. We have seen that since Q2'24, power supply has improved significantly with no loadshedding events, but this cannot be contributed to improved performance alone, as **electricity demand in general has reduced due to competitiveness (mainly due to electricity tariffs and cross-subsidies), implementation of renewables to the grid, household conversions to solar, international purchases of electricity and major winter shutdowns from energy intensive users.**

NPA's are a **crucial survival mechanism** for baseload consumers and **without this, smelter closures would have been expedited, but where should the recovery cost of this reflect**, as adding it to tariffs, will place remaining baseload consumers in definite hardship, thus also requiring an NPA, which could then **again increase the spiralling effect on demand and pricing.**

Cost reflective tariffs are presented and these are very much disputable. Various graphs are showing that SA's tariffs are still some of the most affordable tariffs, but the only way to verify this, is to **compare actual cost of electricity per country where international companies operate.** Companies that are operating in South Africa, will be more than willing to share with NERSA what they pay for electricity in USD/MWh terms for similar commodity operations throughout the globe. It is evident that **SA smelters are between 40% and 70% higher priced** than similar users globally.



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Stakeholder Questions

FAPA is not in agreement with the statement that **Eskom's sales volume is decreasing due to the outcome of the economy of the country**. Although there are elements related to this, the **unrealistic tariff escalations over the last two decades have forced customers to reduce or stop consumption during winter periods and even start with reduced consumption during Standard periods**. Eskom sales volumes also decreased due to its **inability to supply** (excessive loadshedding), as well as the **failure of infrastructure within municipalities**. This has forced large (and other consumers) to **secure supply through other means** (renewable energy and battery storage, energy management, etc.). The increases in electricity rates are further driving this reduction, whilst Eskom is attempting to counter this by decreasing the variable (kWh-linked) portion and increasing the fixed portion (generation capacity charges, etc.). **Escalations of +600%** over this period has constrained the local beneficiation sector and currently, there are no to few solutions in restoring this, **other than NPA applications which is not a guaranteed outcome of approval**.

Regarding commodity prices, the application only refers to certain commodity prices and excludes essential commodities such as **FeCr, SiMe, FeSi, SiMn and FeMn**, which is part of the **backbone of baseload industrial consumers**. Some of these key and **critical commodities** have shown severe pricing pressure over the past 2 years and should be a basis of consideration related to affordability of the proposed tariff hikes of MYPD6.



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Stakeholder Questions

Treatment of operating cost, in particular workforce cost. It is a well-known fact that when a business is non-profitable and must engage in bailouts and loans, that a **key element is the reduction of operating cost and optimization of fixed costs**, specifically in employment numbers, increases and bonuses.

The reduction in sales over the last years and the continued reduction in offtake, should be a primary concern for NERSA. This cannot be ascribed to the economical state of the country but should be traced to the heart of why this is happening to baseload consumers. **The trend and death spiral were unavoidable as indicated several times before in writing by FAPA and other associations.** The implementation of the **NPA's** is a good start for securing sales and assisting with baseload, but it should **be made available for all baseload consumers above a certain threshold**, and it should be converted in time to an Industrial Tariff that can incentivise the consumption of baseload, even if it is accompanied by interruptibility on demand.



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Conclusion

Any smelter operating today without an approved NPA, is seriously losing money under current market situations and based on the percentage impact of electricity tariffs on the cost of production. Those that did obtain an NPA, could operate and probably survive this, but challenges will come at the end of the NPA when tariffs are realigned with actual MegaFlex prices. NPA's should be a consideration for NERSA for all baseload consumers above a certain threshold, but this should eventually be converted to a more long-term Industrial tariff that protects critical commodity customers within the country. During 2024, more smelters have closed and some that were in C&M, were also declared uncompetitive at current electricity tariffs. Only last month, further announcements were made within the smelting and the steel industry, this must surely be a red light for NERSA when looking at the important reduction in demand, given the safeguarding already implemented through the 10 NPA's awarded.

Various governmental plans support local beneficiation with employment opportunities and international investment, but if the proposed tariff increases are implemented, exactly the opposite will happen to a large portion of the remaining smelting and steel industries within SA.

We can but only plead that NERSA will be sensible in its decision on the revenue application and look at the demise already experienced over the last two decades and as was accomplished to recover Eskom and stop loadshedding, do the same to stimulate local industries and support local beneficiation.