

REPORT NO. 490

**REVIEW OF THE DISCOUNT RATES IN THE PRICE PREFERENCE
SYSTEM FOR FERROUS AND NON-FERROUS WASTE AND SCRAP**

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 490

REVIEW OF THE DISCOUNT RATES IN THE PRICE PREFERENCE SYSTEM FOR FERROUS AND NON-FERROUS WASTE AND SCRAP

Synopsis

The Commission conducted a review of the discount rates in the price preference system for ferrous and non-ferrous waste and scrap. After careful consideration of all the relevant factors, the Commission decided to implement the following changes to the price preference rates:

- An increase in the price preference rate for steel (including stainless steel) scrap metal from 20% to 30% below the international benchmark price; and
- An increase in the price preference rate for all aluminium scrap metal from 20% to 25% below the international benchmark price.

Background

1. On May 2013, the Minister issued a policy directive in terms of Section 5 of the International Trade Administration Act, 2002 (No.71 of 2002) (the Act) that the Commission exercise its powers under the Act to regulate the exportation of ferrous and non-ferrous waste and scrap (hereinafter

collectively referred to as scrap metal) by not allowing the exportation of scrap metal unless it has first been offered to domestic users of scrap metal, for a period determined by the Commission and at a price discount or other formula determined by the Commission.

2. In its report No. 441 of 23 July 2013, the Commission published its decision to implement a price preference rate for the domestic metals beneficiation industries of 20% below the international published benchmark prices for the different types and grades of scrap metal.
3. The Commission decided that the system be reviewed one year after its implementation.

The review of the price preference rates

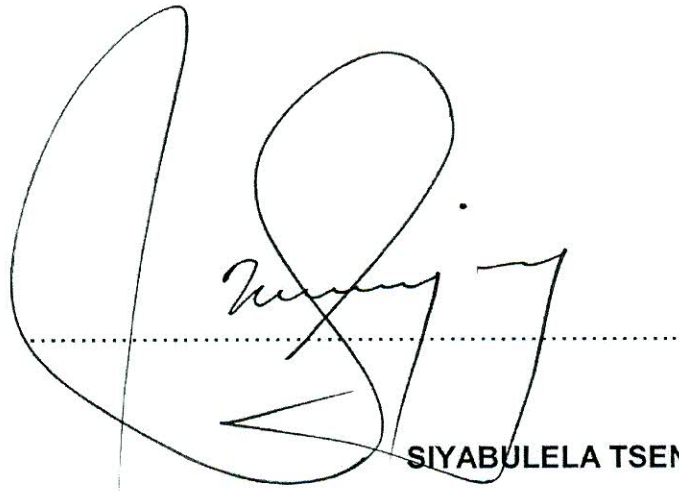
4. In reviewing the rates for the different types of scrap metals the Commission considered a number of factors including comments from interested parties.
5. In terms of the existing dispensation, exporters are required to offer scrap metal at a price preference rate of 20% below an international benchmark price. However, as a result of the considerable differences in the value of metals, in certain instances the rate of 20% is too low.
6. Prior to the introduction of the price preference system, the inland and ocean transport costs were borne by the scrap exporters resulting in an implicit price discount for the scrap consuming industries. The domestic consumers of scrap obtained their requirements at export parity prices.
7. However, the prices published by ITAC exclude these logistics costs and furthermore are "ex works the yard of scrap dealers". The existing rate of 20% would suffice only if logistics costs associated with moving scrap metal from the premises of scrap dealers to the premises of consumers are factored in. The problem is especially acute in the case of steel scrap,

due to the relatively high transport costs as a percentage of the value of steel scrap. The existing 20% rate is applicable to an international benchmark price at FOB Rotterdam. As mentioned, prior to the introduction of the system, the logistics costs from South Africa to export markets were excluded from domestic scrap metal prices. Excluding these costs provided scrap metal consumers with a natural discount which has now been replaced by the price preference system. Therefore, applying, for instance, a 20% discount to an FOB Rotterdam price does not provide a significant price advantage to the consumers of scrap metal. In the case of copper scrap, the aspect related to logistics costs is less problematic, as copper is very expensive compared to other metal scrap.

Findings

8. After careful consideration of all the relevant factors, the Commission decided to implement the following changes to the price preference system:
 - An increase in the price preference rate for steel (including stainless steel) scrap metal from 20% to 30% below the international benchmark price; and
 - An increase in the price preference rate for all aluminium scrap metal from 20% to 25% below the international benchmark price.

The International Trade Administration Commission of South Africa herewith presents its report No. 490: **Review of the discount rates in the price preference system for ferrous and non-ferrous waste and scrap**

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SIYABULELA TSENGIWE

CHIEF COMMISSIONER

PRETORIA

30 JANUARY 2015