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03 PTIP/2018/BDP/ldb

10 October 2018

The Chairman
Ports Regulator
Private Bag X54322
Durban
4000

comments@portsregulator.org

Attention: The Chairman

Port Tariff Applications

Dear Sirs,

Thank you for the opportunity to put forward the cement industry's case regarding the proposed reduction of port tariffs for a range of products used for the manufacture of cement and to comment on the application of OSHO Cement under the Port Tariff Incentive Programme. This response represents all of the cement producers in South Africa namely AfriSam, LafargeHolcim, Mamba, NPC, PPC, and Sephaku and not only the members of The Concrete Institute.

Cement manufacturing process

It is important to understand the cement manufacturing process to understand the capital intensive business it is and the employment that goes with it.

The principal raw materials used in the manufacture of portland cements are oxides of lime, silica, alumina and iron. All of these materials are abundantly available in South Africa. The lime is produced by heating limestone, the silica, alumina and iron oxides are found in most clays and shales. These materials are all mined in South Africa. The oxides are heated in a kiln at temperatures of up to 1 400°C which converts the blend to clinker. The clinker is milled, together with a small amount of gypsum, into a fine powder, which is cement. Clinker is therefore between 80% and 90% on the way to being cement depending on the cement type being produced. The coal used to fire the kilns is also locally mined.

Fly ash is primarily obtained from Eskom power stations and Sasol. It is currently used to extend portland cement to reduce its CO^2 footprint and has significant benefits for concrete made with a blend of portland cement and fly ash. Currently in excess of 10 million tons of fly ash is available in South Africa while only some three million tons is used. Ground granulated blast furnace slag (ggbs) and ground granulated corex slag (ggcs) are obtained from the iron making process primarily from Mittal plants in VanderBijl Park and Newcastle and also from Saldanha Steel. It is currently used to extend portland cement to reduce its CO^2 footprint and has significant benefits for concrete made with a blend of portland cement and either ggbs or ggcs.
The use of both fly ash and slag in blended cement reduces the amount that has to be dumped in landfills.

Local raw materials

As can be seen all the materials to produce cement are readily available locally. All the cement producers source all materials locally – and have mines at various sites, all contributing to social labour plans and Department of Mineral Resources (DMR) requirements in terms of ownership, employment equity and preferential procurement. There is thus no need to import any of the raw materials needed for the production of portland cement or portland cement extended with fly ash, limestone, ggbs or ggcs.

Impact of reduced port tariffs

Reduced port tariffs on clinker and cement

Importing cement or importing clinker has the same effect on local producers as clinker is some 80% to 90% on the way to being cement. It is our understanding that most clinker available on international markets is being dumped. A reduction of port tariffs on cement and clinker will have a serious impact on an already struggling industry. The cement industry as a whole has an estimated capacity of some 19 million tons per annum while it is only selling circa 14 million tons of which approximately 500 000 tons are imported. Cement manufacture is a capital intensive business and investments are recovered over long periods – 20 to 30 years. In addition, clinker manufacturing in South Africa has very strict environmental regulations which have to be complied with and local producers are in the process of expending major capital in order to conform. All future coastal expansion projects by existing producers will be at risk from milling plants at the coast. The impact will lead to mine and factory closures in the medium term.

Any reduction in port tariffs are to the detriment of the local industry – they will allow the importer to compete at an advantage over local manufacturers who complete the entire process – from mining with relevant social labour plans and preferential procurement targets to benefit local communities under the guidance of the DMR – to the cement manufacturing process with maximum local content. Local manufacturers are subject to the compliance processes of the DMR and DTI with procurement targets relating to the mining charter and ownership levels to which these importers do not have to comply. The importers main cost component will be to the country of origin of the clinker. The local manufacturers' biggest costs are labour, power, and coal – all local commodities that add to economic development and job creation. Local content is what drives jobs and investment not imports of a semi-finished good already 80% to 90% towards final form.

One cannot compare the job creation via a milling plant with that of a fully integrated manufacturing presence that a local manufacturer might have – by importing clinker, we are exporting the bulk of the job opportunities to the country of origin of the clinker.

We therefore disagree with a proposal to reduce port tariffs on imported cement and clinker from R68,41 per ton to R27,04 per ton.

Reduced tariffs on limestone

Limestone is used both in the manufacture of cement and as a filler in blended cement. If clinker is being imported, there is no need for the importation of limestone for the manufacture of cement. South Africa has ample limestone deposits to be used as a filler in blended cements. The use of imported limestone will reduce the amount of other extenders used such as fly ash and ggbs/ggcs. This will result is less use of local extenders and more of these products ending up in landfills with negative ecological impact.

We therefore disagree with a proposal to reduce port tariffs on imported limestone from R25,65 per ton to R7,40 per ton.

Reduced tariffs on ggbs/ggcs

These extenders are widely used in the manufacture of cement and concrete. Any imported extender will reduce the amount of local extenders being used and more of these products ending up in landfills with negative ecological impact.

We therefore disagree with a proposal to reduce port tariffs on imported ggbs/ggcs from R68,41 per ton to R7,40 per ton.

Port Tariff Incentive Programme Application by OSHO Cement

It would appear from the Tariff Application Clause 8.3.2 that….. "*The Authority received a PTIP application from the Regulator in February 2018. The application was forwarded to DTI by the Regulator for review and endorsement. Applications concerning industrial trade would require the DTI's accreditation. The application received does fall within the scope of the industrial trade ambit but did not meet the minimum requirements for accreditation as set by the DTI. As a result the application did not receive endorsement from the DTI and cannot be appraised any further by the Authority within the PTIP framework as part of its FY 2019/10 Tariff Application process.*"

It is therefore not clear why the application from OSHO was still tabled as part of the Application together with a request for comments.

For all the reasons expounded above, we do not support the further reduction of port tariffs requested by OSHO Cement in respect of cement and clinker, ggbs, limestone and gypsum.

Conclusion

It is our view that a reduction of port tariffs will have a serious impact on an already struggling industry. The cement industry as a whole has an estimated capacity of some 19 million tons per annum while it is only selling 14 million tons of which approximately 500 000 tons are imported. Cement manufacture is a capital intensive business and investments are recovered over long periods – 20 to 30 years. In addition, clinker manufacturing in South Africa has very strict environmental regulations which have to be complied with and local producers are in the process of expending major capital in order to conform. All future coastal expansion projects by existing producers will be at risk from milling plants at the coast. The impact will lead to mine and factory closures in the medium term.

While the industry does not have a problem with new entrants, they must compete on a fair basis and the proposed reduction in port tariffs as well as the further reduction requested under the Port Tariff Incentive Programme will give them an unfair advantage. We therefore disagree with the proposal to reduce port tariffs for the importation of clinker, limestone, gypsum, and ggbs/ggcs as well as the additional reduction in tariffs requested by OSHO Cement under the PTIP.

Yours sincerely

B D PERRIE
Managing Director