
Ferrochrome hike to fit power tariffs in SA - Ferro Metals

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Mr David Kovarsky CEO of LSE listed International Ferro Metals Limited said that prices of ferrochrome, the key ingredient in stainless steel, will have to rise to accommodate increasing power tariffs in South Africa, and in coming years there may be a capacity shortage because of electricity constraints in the country.

A proposal by South African power monopoly Eskom to increase tariffs by 45% annually over the next 3 years after pushing rates up 31% this year is sounding alarm bells amongst mining companies and other heavy power users.

The proposal is meeting stiff resistance from business and labor. It has yet to be approved by the National Energy Regulator of South Africa. Eskom needs around ZAR 380 billion to increase generating capacity to meet the country's burgeoning power demands. Two new large power stations are under construction and these are seen coming on line only start coming on line in 2012, providing temporary relief.

Mr Kovarsky said that "It will make us higher cost producers, but they key thing is that South Africa is still the largest producer of ferrochrome. South Africa is generally a price maker and any costs that are impacted in South Africa will impact on selling prices and selling prices in future will have to cater for higher electricity costs."

It is unlikely that stainless steel users can turn to other countries for ferrochrome if South African prices rise strongly. South Africa supplies more than 3.5 million tonnes of ferrochrome per annum and to make up that slack would be extremely difficult.

Operators in the South African ferrochrome industry have spent ZAR 10 billion on mines and furnaces over the past five years. They have to spend a further R15bn up to 2014 to add 1.2 million tonnes of capacity to secure their 50% market share.

South Africa is the largest supplier of chromite ore and the ferrochrome producers are lobbying the government to impose a USD 100 per tonne tariff on chromite ore exports and limit exports of the material by integrated companies. Junior chromite ore producers are forming a lobby group of their own to oppose such a move.

(Sourced from www.miningmx.com)

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