

9 Conclusions

The Study Terms of Reference required a socio economic analysis of a number of factors. The following can be concluded to be primary findings, based on the impact assessment according to the scenarios created

- A first and most important finding is that the proposed “two step” introduction of the regulations, i.e. firstly a minimum thickness of 30µ and then after six months, a minimum thickness of 80µ, is not feasible at all. An 80µ bag is a very different bag to a 30µ bag. It requires totally different manufacturing technology (equipment) to that currently used, is primarily made from LD-PE compared to the current HD-PE bag, and will require extensive capital investments. No manufacturer will be prepared to make a capital investment to manufacture a 30µ bag, and then scrap the equipment 6 months later in order to invest in the manufacture of 80µ bags.
- A second important finding is that there is a real chance that, under an 80µ regulation, the local VCB manufacturing industry could shut down altogether, and be replaced by imported product. It was found that there are a number of forces that come into effect under an 80µ situation, which will result in manufacturers exiting the industry. The first factor is the extent of capital investment required, as extensively dealt with later on. The second is the current structure of the industry, namely it being a relatively mature commodity industry with low margins. The third factor relates to the prevalence of imports and the difficulties (especially for SME's) in accessing alternative, and specifically, export markets.

The research found that the small and medium enterprises will not have access to the capital required, and be forced to either shut down or find alternative markets under the 80µ scenario. Export markets are not accessible to such SME's, and the potential to enter alternative domestic markets is limited due to the specific application of current equipment.

Large companies who have access to finance indicated that their shareholders would be reluctant to approve large capital investments in a low margin industry. The large company that is currently exporting indicated that the margins on exports are so low that business can probably not be sustained solely on exports.

The implications of the domestic VCB industry ceasing to exist are severe and include massive job losses, negative impact on international investor confidence especially in the upstream sector, unrealised capital investments, negative impact on South Africa's balance of payments, negative impact on socio-economic development in rural areas such as KwaZulu-Natal and the Eastern Cape, etc.

- A third key finding is that although an increase the thickness of bags will stimulate recycling, the increase in recycling will be limited (maximum 10-15% of production, based on recovery economics) unless other factors that constrain recycling are addressed. The most important factor

is the need to create additional demand for recycled polymer. A frequently mentioned example of how additional demand can be created relates to the merits of specifying a minimum recycle content of refuse (and possibly other) bags. Further investigation of the merits of such interventions was beyond the scope of the study.

- The findings of this study relate only to the impact on the VCB manufacturing sector of the plastic industry. Other sectors, such as the manufacturing on non-VCB's will also be affected by the regulations. The impact on other sectors of the plastic industry could not be established since Government were not in a position to clarify the scope of the regulations in the detail required for successful extrapolation, when this research was conducted.