

# Arcelor looks for a better deal

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## Local preference 'should be extended to steel sector'

**ARCELORMITTAL** South Africa (Amsa) is lobbying government to include steel as a designated sector to benefit from state procurement in a bid to boost that ailing sector.

This is one of the many challenges new CEO Paul O'Flaherty will be tackling when he joins the group in July.

In terms of preferential procurement laws, the Department of Trade and Industry can designate specific industries in which tenders should prescribe that only locally manufactured products with a prescribed minimum threshold for local content will be considered.

The aim is to leverage public expenditure to support economic growth, create jobs and lower the country's trade deficit.

The steel sector has been excluded to date, largely due to its history of colluding on

prices. The department has been at loggerheads with ArcelorMittal for years over steel pricing and has been looking at ways to regulate "developmental" prices.

However, the current state of the sector makes it clear that the industry's heyday of the 2000s are over, and that more should be done to help local producers.

South Africa has steadily lost global market share over the past two decades, and significant steel-making capacity has been lost over the past four years.

Since the global financial crisis in 2008, Cisco Steel has shut operations, Scaw Metals is being kept alive by funding from the state-owned Industrial Development Corporation, and Amsa has shut its electric-arc

furnaces in Vanderbijl Park.

This week, Evraz Highveld Steel & Vanadium, the country's second-biggest steel maker, posted a R105-million loss for the first quarter after its loss of R379-million in 2013.

The company's financials also raised red flags about its future as a going concern, with management warning that the company continued to use credit lines that were committed only until year-end and which were already fully drawn.

Amsa's first quarter was more successful, with the steel maker posting a net profit of R322-million, compared with a loss of R276-million in the corresponding period last year.

"The current business environment in South Africa is quite difficult," said ArcelorMittal acting CEO Hans Ludwig



NEW BOSS: Paul O'Flaherty

Rosenstock.

Demand was affected by the mining strike, a weak manufacturing sector, high imports and customers not stocking up

on product, he said.

Rising electricity tariffs, low demand growth and an increase in cheap imports had all contributed to the sector's woes.

ArcelorMittal was also arguing strongly against government's proposed carbon tax, which it estimates could cost over R600-million a year. "What we can't afford in the steel industry is an additional load on the back," Rosenstock said.

Steel is a crucial part of the industrial sector of any economy, and retaining capacity and building a globally competitive sector is crucial if government wants its industrialisation policies to succeed.

Countries such as South Korea, Japan and China have had government support for their steel industries — combined with close collaboration

with, for example, their automotive industries and, in the case of China, its urbanisation drive — as a key driver of economic growth.

South Africa's government spends billions in the form of state support for the automotive sector, although less than 6% of the steel it uses is locally produced.

Similarly, no collaboration has taken place with steel makers and the renewable energy sector, where better planning could have ensured using local steel for windmills, for example. It is understood that hardly any local steel is being used in building Medupi.

By designating steel as a sector for preferential procurement, local producers would benefit from major infrastructure expenditure by state-owned enterprises like Eskom and Transnet, said Themba Nkosi, head of corporate affairs at ArcelorMittal.