ArcelorMittal SA fumes over state's policy snub

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The government and steel giant ArcelorMittal SA could be heading for a showdown over the government's refusal to grant it preferential status in its infrastructure procurement programme.

ArcelorMittal said on Sunday that the move last week was a surprise, "most unfortunate" and could lead to job losses in the steel industry.

Nonkululeko Nyembezi-Heita, CEO of ArcelorMittal SA
Image: Gallo-Gettt

Under the new preferential procurement regime, which came into force in December, the Department of Trade and Industry may designate a certain level of local content to an economic sector or subsector for public procurement. But when it comes to steel - likely to be the single biggest input in the infrastructure plans - all products will be treated the same, regardless of origin.

The rationale for excluding steel is to ensure that ArcelorMittal, SA's biggest producer of most steel products, does not benefit disproportionately from the infrastructure programme.

The government - in particular trade and industry and the competition authorities - has been engaged in disputes with ArcelorMittal over its pricing policy, which the government says is strangling downstream manufacturers. A Competition Tribunal finding in 2007 that the company had engaged in excessive pricing by charging import parity prices for flat steel came to nothing when the complainant in the case settled with ArcelorMittal.

Last week, Nimrod Zalk, deputy director-general for industrial development, said steel was being given special treatment because of ArcelorMittal's dominance in the local economy.

"In all steel-intensive areas, we will deem steel to be local even if it is imported. This is to ensure ArcelorMittal doesn't get carte blanche to rack up steel prices. If they want to get the business, they will have to give the best price."

ArcelorMittal spokesman Themba Hlengani said this came as a surprise, "and if correct, we believe it would be most unfortunate and raise questions regarding the fair and equitable application of government policy".

"Despite the negative perception of steel pricing practices, this exclusion will have minimal impact on current pricing structures, which are already based on international steel price levels.

"The impact will be rather to further worsen the industry's competitive position versus steel producers who enjoy government subsidies in their home countries, which has a major impact on the downstream steel manufacturing sector and may unfortunately lead to further job losses ," Mr Hlengani said yesterday.

In past clashes, the government said high steel prices were constraining the downstream steel manufacturing sector.

Three of the six subsectors designated for local content are steel intensive: rolling rail stock, power pylons and buses. The level set for rolling rail stock is 65% and for buses 85%.

This is based on what is feasible, says Mr Zalk, and allows for technologically more advanced components - such as gearboxes and engines - to be imported.

"We went through a detailed exercise exploring what we can produce competitively, what level of effort would be required to produce particular components. The idea is ultimately to shift up the value chain, but not in an unrealistic way," he said.

It is likely, said Mr Zalk, that global original equipment manufacturers will bid for contracts to manufacture rolling stock, knowing that they will either have to partner with a local firm or invest directly in SA themselves.

US firm General Electric's establishment of local capacity to build 90 locomotives for Transnet showed what could be done.

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