BUSINESS DAY (Late Final)
28 Aug 2014, p.1

ArcelorMittal stands firm on its pricing model — CEO

Cost of local steel under scrutiny

LINDA ENSOR
Political Writer

CAPE TOWN — Loss-making steel producer ArcelorMittal SA is not in a position to change its import parity pricing model in an environment of low productivity, high electricity costs, and competition from subsidised Chinese and Indian steel imports, says CEO Paul O'Flaherty.

ArcelorMittal has faced a barrage of criticism over the years from Trade and Industry Minister Rob Davies and Economic Development Minister Ebrahim Patel over its pricing methodology, which has artificially inflated domestic steel prices. The ministers blame such pricing for inhibiting the growth of downstream manufacturing industries.

They have gone so far as to seek the establishment of an alternative steel mill, which is still on the drawing board. Sasol has also been accused of strangling the local plastics industry.

> **Pricing is not as big an issue now. The biggest constraint is electricity**

However, a high steel price was not the dominant issue to emerge from a colloquium on beneficiation held over the last two days by Parliament's trade and industry portfolio committee. Beneficiation is a key part of the Department of Trade and Industry's industrial policy action plan.

Cited as more significant constraints by participants were the limited and erratic supply of electricity, labour problems and imports — and, in what may be a shift in the official position, Trade and Industry director-general Lionel October seemed to agree.

He conceded that the global glut of steel had reduced the price and that this was no longer such a burning issue as it had been a few years ago.

He agreed that a holistic approach was needed and that steel pricing was just one issue.

"Pricing is not as big an issue now. The biggest constraint is electricity," Mr October said.

Mr O'Flaherty, a former chief financial officer of Eskom, stressed yesterday that ArcelorMittal was a company that needed to make a profit or it would die.

"We are prepared to start talking about pricing but we need to get the fundamental cost base right. We are not making profits so it is very hard to have a discussion about what you should be charging for your product.

"We need assistance in terms of import controls against China and India flooding the market with subsidised raw steel," he said.

There should also be a requirement that local steel be used for major government projects, he said. Local demand for steel has been weak, and ArcelorMittal is not producing at full capacity.

Mr O'Flaherty said there had to be a holistic discussion about ways to enable the company to offer a better price. He noted that for 85% of ArcelorMittal's end-users steel only represented 5%-25% of their total costs.

"Where the steel price becomes important is to make those downstream manufacturers competitive for exports and to make imports disappear. We need to do our bit, but we also need assistance," he said.

Steel and Engineering Industries Federation of SA (Seifsa) CEO Kaizer Nyatsumba highlighted the damaging effects of imports on the sector.

Seifsa chief economist Henk Langenhoven too advocated a holistic approach, saying this would have a better chance of success than one that was based on the stages of production.

"It is not only input costs that we must worry about."

Mr Langenhoven said administered prices and physical infrastructure constraints were often underestimated as inhibitors of the manufacturing sector.

"Higher levels of policy coordination are needed urgently," he said.

"The sector was replacing domestically produced intermediate inputs with cheaper imported components for local assembly to save costs and stay competitive, Mr Langenhoven added.

Manufacturing Circle executive director Coenraad Bezuidenhout noted that conditions in the manufacturing sector were deteriorating due to labour market instability, high wages and administered costs; competition from imported goods; low labour productivity; a skills deficit; and subdued consumer demand in a low-growth environment.

ensorl@bdfm.co.za

This material has been copied under a DALRO licence and is not for resale or retransmission.