

# ArcelorMittal steel price '33% too high'

*New doubts over 'developmental pricing'*

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NEDBANK Capital says ArcelorMittal SA's steel prices for SA could be 33% higher than its benchmark, yet the company has been unable to generate margins superior to its local peers.

This raises questions about the productivity and profitability of ArcelorMittal SA's operations. But it also seems to overturn the government's belief that the company can produce steel at "developmental prices".

Nedbank Capital said in a note to clients yesterday that ArcelorMittal SA's prices had not been in line with its benchmark communicated to the market in 2006.

It said the "implication" was that its steel prices had been, on average, 33% higher than its benchmark since the second half of 2008.

From 2006, ArcelorMittal SA officially changed its pricing policy from import parity to a basket based on domestic prices in the US, Europe, Russia and China.

ArcelorMittal SA said yesterday that it was unaware of the "so-called benchmark" Nedbank was highlighting and using as a comparison.

"The difference between ArcelorMittal SA's pricing and the 'basket' price, since the second half of 2008 to date, has been around 6%," the company said.

In its annual report to December, ArcelorMittal SA announced a headline loss of R52m for the year. Earnings before interest, tax, depreciation and amortisation halved to R1,7bn, due to lower sales and significantly higher input costs.

Nedbank Capital said that from November last year until now, ArcelorMittal SA had reduced its selling prices for hot-rolled coil by 3% and light carbon wire rod by 10%, compared with its benchmark, which had been flat over the same period.

The banking group's debt and equity advisory and trading arm said international and domestic

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steel prices were losing momentum. After an upward trend since the first quarter of 2009, international prices fell sharply from the first quarter of 2011, ending last year an average 22% down from the peak last March.

"At present, international steel prices are 7% higher than the beginning of 2012," Nedbank Capital said. But it said the improve-

ment in prices had been driven more by restocking than by demand from end users.

"The outlook for prices does not seem encouraging for the remainder of 2012," it said.

ArcelorMittal SA confirmed that from April 1, its prices for wire products fell by an average of 6,4%; rolled rounds and squares dropped an average 3,9%; and spring steel products declined an average 3,6%.

However, flat-steel products prices remained unchanged this month. Flat-steel and long-steel products are widely used in the manufacturing and construction industries.

Nimrod Zalk, deputy director-general for industrial development at the Department of Trade and Industry, said yesterday that it appeared ArcelorMittal SA had operational issues.

"There appears to be consid-

erable underinvestment in maintenance and productivity. That is one of the reasons margins are so low," he said.

The departments of trade and industry, economic development, and mineral resources have been putting pressure on ArcelorMittal SA to produce steel for SA at "developmental prices" — in the lowest quartile of global production costs.

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