BUSINESS DAY, Companies & Markets
14 Mar 2013, p.12

Industry players sceptical about new entrant into 'saturated market' writes **Mark Allix**

Government wants control over mill project

THE Department of Trade and Industry says international investors are ready to help establish a new joint venture steel mill in SA. Negotiations are likely to be finalised by the second quarter of this year.

But the department says any agreement will contain "strong conditions" to ensure the government controls the project, avoiding the shortcomings associated with the unbundling of state-run Iscor more than a decade a go.

Many in SA's steel industry do not see how new players can enter an already saturated market, despite the country's enormous infrastructure plans. Producers have spare capacity and imports are flooding in. But a recent fire crippled ArcelorMittal SA's Vanderbijlpark facility, the largest supplier of flat steel products in sub-Saharan Africa.

The producer, part of the global ArcelorMittal Group, has provided little information on the fire, saying it hopes to restart full operations at the end of next month.

Hennie de Clercq, CEO of industry body the Southern African Institute of Steel Construction, says the past year has not been a good one for SA's steel industry. About 1-million tons of steel were imported in the period, which is a record. This is likely to be worsened by ArcelorMittal SA's latest shutdown,

Graphic: RUBY-GAY

following protracted outages at its Newcastle mill in past years.

"Since the imported steel was not cheaper than the local, this implies that slack demand does not explain the woes of the steel producers," Mr de Clercq says.

"A better explanation is that the production of steel has been erratic and far below the potential. To a large extent this can be attributed to technical problems that were experienced by the mills."

Mr de Clercq says SA's mining and transport strikes had a "very negative effect". Along with a lack of state spending on capital projects, private companies have been hoarding cash, creating a "dearth of new mining and other industrial projects".

The Industrial Development Corporation plans to buy Anglo American's 74% stake in Scaw Metals for R3.4bn, among other steel assets. This is part of the government's efforts to promote competition in SA's steel industry, and enforce a "developmental" pricing model in aid of its infrastructure plans.

Meanwhile, a small private steel plant is nearing completion in the Coega industrial development zone near Port Elizabeth. Construction group Murray and Roberts recently struggled to sell its mothballed Cape Town Iron and Steel Works mini-mill, eventually landing a Turkish buyer.

However, these events are of little significance measured against the hype that has come out of the steel industry in SA. In early 2011, empowerment group Afripalm Resources struck a deal with the state-run Steel Authority of India to conduct a feasibility study for a new R21bn steel plant in SA. Since then nothing has been heard of this and other proposed projects.

Most pertinently, the government's demands for a more competitive steel price have led to unresolved legal disputes involving the state and private sector. These stem from a failed empowerment deal involving politically connected Imperial Crown Trading and access to iron-ore mining rights.

Edwin Basson, director-general of the World Steel Association in Brussels, who has a long association with SA's steel markets, says there have been "tectonic" changes in the global steel market. Primary among these are volatility and competitive pressures that have arisen as longer-term steel pricing contracts are replaced by spot-price markets driven by China's rapid economic growth.

"The steel industry is an international industry," Mr Basson says. "Most contracts are dictated in terms of delivery to Chinese ports." China comprises about 46% of total world steel production and demand. SA constitutes about 1%.

"Ownership (of steel companies) was globalised and this drives globalised behaviour," Mr Basson says. Steel is already an "international commodity" on a par with its crucial inputs of iron ore and coking coal. "Any protectionist measures, by definition, will go against international trends."

This stands in stark contrast to SA's developmental approach to steel prices. "No country in the world has the ability to follow trends that are out of sync with the rest of the world," Mr Basson says. "If you want to remain competitive you need to be competitive in international markets."

There is "very little" opportunity to "hide behind country factors", including domestic political and economic circumstances, and development needs. "My impression ... is that in SA they think they can treat the domestic market by a different set of rules to the export market," Mr Basson says.

"But very few countries in the world are successful in maintaining this." This was especially in the face of widespread industry subsidies in China.

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