BUSINESS DAY, Companies & Markets
01 Nov 2012, p.21

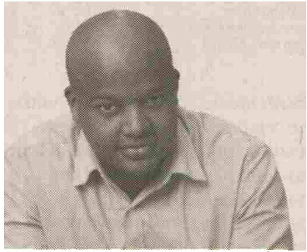
How will ArcelorMittal's ratings setbacks affect SA?

WITH operations across about 60 countries, struggling steel and mining giant ArcelorMittal is starting to sift through its list of assets and placing "for sale" signs on those it sees as not central to its future.

The reshuffle has been egged on by noisy ratings agencies concerned by the conglomerate's debt levels. Standard & Poor's recently cut its rating on the steel maker's debt to junk and Moody's Investors Service warned that it would follow suit unless the company reduced its debt by about $5bn by year-end.

With conditions in the global steel industry worsening on weak economic conditions in Europe and a slowdown in China, the world's leading steel maker has seen its earnings come under significant pressure as a result of declining prices.

The company, owned and led by one of the world's richest men,



Ron **Derby** In the

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Lakshmi Mittal, yesterday reported its lowest quarterly profit in close to three years and also cut its 2013 dividend. To ease debt concerns and to maintain its investment grade status, the steel maker has had to dispose of some of its assets, shift output to more cost-efficient sites and idle some plants.

In such a cost-cutting mood, it will be interesting to see what it thinks of its controlling interest in local subsidiary ArcelorMittal SA. Is it a "core" or "noncore" asset?

Shares in the Vanderbijlpark-based steel-producer fell to its lowest level in more than eight years yesterday after it reported a third-quarter loss and said it may widen in the next three months.

The results were in line with those of its parent, but one rather significant cloud is hanging over the company — its long-running supply dispute with Anglo American's Kumba Iron Ore.

The supply agreement struck in 2001 gives ArcelorMittal SA ore from the Kumba-owned Sishen mine in the Northern Cape at cost plus 3%.

Kumba says the deal lapsed when the steel maker failed to renew its mining right over the mine before it expired with the Department of Mineral Resources. However, ArcelorMittal SA says the deal is still valid.

The matter is still in arbitration. As it stands, the companies are operating on a temporary supply agreement that expires at the end of the year. The Department of Trade and Industry is acting as a mediator between the two to extend the deal until the arbitration is finalised.

(In July 2010, ArcelorMittal SA threatened to close its Saldanha plant and cut all steel exports after failing to reach an interim supply deal with Kumba.)

If ArcelorMittal SA were to lose its very important supply agreement with Kumba, the company may find itself paying double for its ore. Currently, it is paying about $65 a ton.

In a loss-making environment, with prospects for the global steel market still weak, one has to wonder in which category the parent company will soon have to place its South African unit. This is especially so when you consider SA's rising electricity and labour costs.

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THE next phase in rebuilding Lonmin is about to move full steam ahead, with reports yesterday of the miner sending out a notice to unions that it is contemplating restructuring, which could include retrenchments.

After the world's third-largest platinum miner caved in to worker demands for a 22% raise, job cuts are inevitable a month later.

Platinum's rally on illegal strikes that started at Lonmin's Marikana mine was short-lived. The sector faces the same problems it did before illegal strike action began on August 10.

A Solidarity spokesman told the South African Press Association yesterday the union "will do everything in its power to prevent retrenchments from taking place, because it is unfair for employees who did not participate or instigate the unprotected strike and unlawful protest action, to become the victims of the five weeks of workplace anarchy".

The National Union of Mineworkers could argue the same and point fingers at the rogue Association of Mineworkers and Construction Union as the main instigator of the illegal strikes.

Deliberations over Lonmin's restructuring are likely to be heated, but with labour costs climbing as high and as fast as they have for the ailing miner over the past five weeks, the biggest losers are certain to be the miners themselves.

Families lost more than 44 breadwinners in the battle for the 22% wage increase, which could cause thousands of breadwinners in the platinum industry and the businesses that support it, to lose their jobs. That's the real cost.

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