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Saldanha may need to change its business model

SALDANHA Works, the steel mill owned by ArcelorMittal SA on the west coast, is driving cost savings hard to keep the embattled plant in production in the face of soaring electricity and labour costs as it competes with international players for export markets.

The two technologies deployed at the plant need expensive inputs to convert iron to pig iron and then steel. The technologies use imported iron pellets from Brazil, making up about 20% of the raw iron fed into the plant. The balance comes from iron ore railed 861km from the Sishen mine in the Northern Cape, scrap, and a small percentage from reprocessed slag tailings.

Saldanha is looking for ways to reduce the use of pellets, which are used to improve the efficiencies in the furnaces which become blocked if just iron ore is used, says Dhesan Moodley, MD of the plant. The pellets cost $200/ton compared to $50/ton for iron ore. The plant uses 2-million tons of ore and 500 000 tons of pellets a year to produce 1,2-million tons of hot-rolled coil.

The plant will screen out fine iron ore that contributes to clogging furnaces and conduct more frequent clean outs of the furnace shafts to ensure optimal pellet use, Mr Moodley says.

The workforce is down to 570 from 800 people in eight years.

Part of Saldanha's production is a niche ultra-thin rolled coil, which is normally produced in a far more expensive cold-rolled process. It is this cost differential that Saldanha wants to increasingly tap into, Mr Moodley says. About a quarter of its annual production is ultra-thin steel.

It sells about 55% of its output to African countries, 30% to the nearby Duferco steel processing plant, which produces a range of products primarily for the export market, and the balance inland.

As part of the cost-savings drive, more than $80/ton has been stripped out of the process. In January, the indicative figures showed Saldanha to be the second-cheapest steel plant in the ArcelorMittal group's global stable, Mr Moodley says.

"We can compete with China and India in West Africa," he said. "Our customers want kilometres of material not tonnages, so with the thinner steels we can sell more kilometres and it commands a $70- to $80-ton premium to the 2mm steel," he says.

Saldanha has begun talks with Eskom on securing a different pricing model for the 160MW it consumes, Mr Moodley says.

Saldanha is paying R600m more a year on electricity than it did when it was commissioned in 1998, he says. If Eskom raises tariffs to R1/kWh it will add another R600m.

"We could just not run our plant at Eskom's proposed long-term tariffs," he says.

It has to make a case to the government for a special electricity pricing dispensation to keep jobs in the Saldanha region for people employed by itself, Duferco and other service providers, he says.

Saldanha is investigating alternative sources of energy, including wind farms, solar and biomass electricity generation.

It is the only plant in the world to combine the Corex and Midrex technologies that do away with coke ovens and blast furnaces, but despite that it has not made a profit in the past four years, breaking even in 2010 and posting a small profit last year.

"When it (the steel mill) was built, the business model was based on cheap inputs, cheap electricity and cheap labour, none of which applies anymore," Mr Moodley says.