

State bids to reduce iron ore, steel prices

Donwald Pressly

THE GOVERNMENT is about to embark on a consultation process which it hopes will lead to the regulation of the iron ore and steel sectors to stop "import parity" pricing, which it argues has kept South Africa in the top quartile of global costs.

The government wants to reduce the cost of steel products to boost the local beneficiation industry.

According to Trade and Industry Department acting deputy director-general Garth Strachan, the aim is also to set up a new steel plant sponsored by the Industrial Development Corporation to promote competition in a market dominated by a near monopoly.

While it is not spelling it out, the government is known to be adamant that Arcelor-Mittal South Africa is benefiting from discounted iron ore prices from Kumba Iron Ore, but is not passing it on to the steel price.

While cabinet acting spokeswoman Phumla Williams erroneously sent out a statement earlier yesterday announcing "an intradepartmental task team on iron ore and steel final report" as recommending "the introduction of export taxes on iron ore and steel", Strachan said this was not the case.

Instead, steps were being taken by the Economic Development Department to prevent the export of stolen metal through "strengthened inspections and processes under the Second Hand Goods Act to safeguard the supply of affordable scrap metal to domestic mini-mills".

What the government was seeking was the regulation of the steel price and the encouragement of competition within the sector. Strachan said negotiations were taking place with a private sector player to be involved in the new steel plant. It would be a public-private joint venture company.

Further details of its location and size are not available at this time.

Department of Trade and Industry spokesman Sidwell Madupi said a process to establish "new domestic steel production capacity and hence to contribute to effecting a reduction in the steel price and achieve related economic objectives" had begun.

ArcelorMittal SA and Kumba said they were aware of the cabinet statement, but would not comment further.

Wilmot James, the DA trade and industry spokesman, was concerned the government's interventions might be a little misguided, although possibly well-intentioned.

Mike Schussler of Economists.co.za said that he was concerned about possible special electricity deals to promote the steel sector. "They [government] obviously want to encourage value-add... but it is difficult to build up a steel [beneficiation] industry in an environment where our electricity prices are no longer the cheapest in the world by a long shot."

Strachan said the government would seek "a developmental iron ore price". The process would be directed by the Mineral Resources Department through amendments to the Mineral and Petroleum Resources Development Act, which would be released for public comment shortly.

He said South Africa had a vast reservoir of iron ore and although certain players were provided with discounted ore prices, the steel price was being based on import parity prices.

Discounted ore prices were simply absorbed into the price structure not passed on. **page 2**