

STATE VS STEEL

INDUSTRIAL POLICY WAR HOTS UP

Trade and industry looks at mining regulations to force lower prices

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The decade-long price battle between the department of trade and industry and ArcelorMittal SA has moved front and centre in the fifth version of the Industrial Policy Action Plan (Ipap), which was released this week.

Now the battle seems to be moving to the nation's major iron ore producers, Kumba Iron Ore and Assore, as the government chases the elusive "developmental pricing" for steel that never materialised from the unbundling of the old Iscor a decade ago.

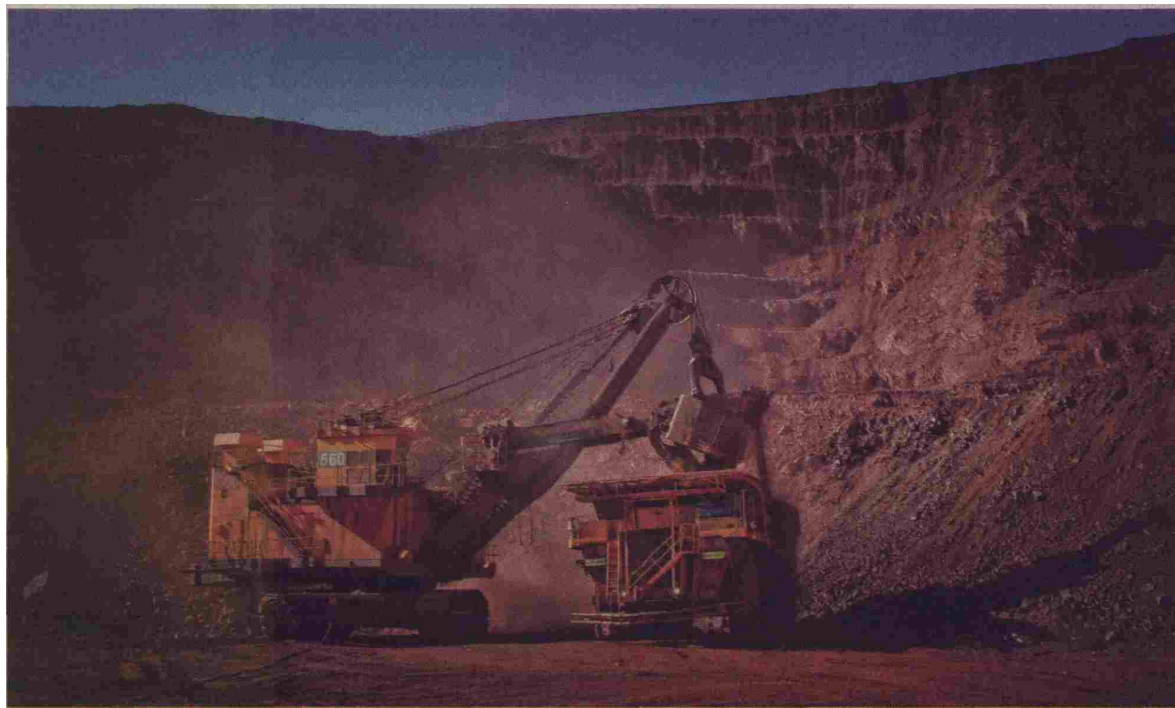
The department plans to add mining regulations to its arsenal, which has so far consisted mainly of competition investigations, to force or coax lower steel prices out of the private sector.

Among the short-term plans laid out on Thursday is a commitment to use, and even change, the recently proposed amendment to the Mineral and Petroleum Resources Development Act to limit the export of iron ore, set national steel production targets like those in India, set iron prices in the local market and make manufacturing linkages a precondition for getting mining rights.

Most of these far-reaching interventions would be set down by June, according to the new Ipap "key milestones".

The department has long accused ArcelorMittal SA of charging a disguised equivalent to import-parity prices for its steel, although the steel maker vehemently denies it.

Regulating iron ore to achieve lower steel prices would, however, in effect punish the nation's most valuable mine, Kumba's Sishen, for ArcelorMittal SA's alleged



An excavator loads iron ore into a haul truck at the Sishen opencast mine operated by Kumba Iron Ore. Following the updated plan on lower steel prices, the government focuses on Kumba and Assore for the elusive 'developmental pricing' || PHOTO: BLOMBERG

What is the Industrial Policy Action Plan?

The fifth iteration of the Industrial Policy Action Plan (Ipap), which was launched on Thursday, covers specific action plans to spur industrial growth and reduce unemployment until 2016.

Originally launched in 2007, Trade and Industry Minister Rob Davies said the latest version would focus on value-added production, with state support centred on nurturing industrial development.

Davies said: "Ipap is based on the need for sustainable, long-term development that is underpinned by

higher growth, exports and labour-intensive, value-adding economic activity in the production sectors, led by manufacturing."

Previous beneficiaries include appliances group Defy, technology products firm Hisense as well as the BASF Group, the largest chemical firm based in Germany.

Davies explained that Ipap would in the next year focus on mineral beneficiation, regional integration, providing incentives to promote innovation and technology, as well as infrastructure development.

Kumba, however, criticised the assumed link between lower iron prices and lower steel prices in a lengthy discussion document in 2010. This was at the time the department first raised the

Referring to the nation's massive infrastructure development drive, the minister said the strategy offered "the possibility of substantially increasing aggregate demand for the key inputs that will be required and for the localisation of a wide range of manufactured inputs".

Other manufacturing growth opportunities are seen in the exploration of new export markets, as well as expanding trade with Brics (Brazil, Russia, India, China and South Africa) nations.

– Andre Janse van Vuuren

prospect of using cheap ore as a steel subsidy for prospective new investors.

That was in the context of the legal battle around ArcelorMittal SA's share in the Sishen mine,

which the trade and industry department hoped might be leveraged against the steel maker.

A ruling by the Supreme Court of Appeal last month closed the book on that case, giving Kumba full control over its mine.

The new Mineral and Petroleum Resources Development Act still has to be finalised after being approved by Cabinet in December. Also, several leading law firms have criticised the sloppy drafting and obvious errors.

It does, however, promise to give the minister of mineral resources the power to declare any mineral "strategic" and then set local sale quotas and prices.

The new Ipap shows that there is every intention to use this power on iron ore and not just coal for power utility Eskom, as many commentators assumed.

The similar regulation of metal scrap prices is already well in the works after a draft policy directive in January set the basic rules.

These promised interventions in the mining industry dramatically raise the stakes in the already heavily politicised mining and steel sectors.

Among the other major proposals for the mining regime in Ipap is a resurrection of the "beneficiation offsets", which were in the original mining charter in 2004, but which never came to much.

The principle is that a mining company can limit its empowerment shareholding below the otherwise mandatory 26% if it facilitates new beneficiation to the same value.

This option should be properly integrated into the act, the new Ipap states.

Ipap also promises a continuing use of competition law and investigations against "excessive pricing" of steel and other inputs fundamental to infrastructure and industrial developments.