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Steel giant could face action in SA

Tough talk around ArcelorMittal's French plans has shone a spotlight on its local pricing structure

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Global steel company ArcelorMittal may be facing the threat of nationalisation in France, but that is not its only concern.

This week the department of trade and industry admitted that it was of "critical importance" to the survival and growth of South Africa's manufacturing sector to address ArcelorMittal's pricing strategy, which uses import parity pricing to set local steel prices.

Import parity pricing is the use of global commodity prices, plus the cost of shipping the commodity to South Africa (which would be payable if it were imported), to set a local commodity price.

This week ArcelorMittal dominated international headlines as French President Francois Hollande's government criticised its intentions to close down a plant in the north of France, which would result in the loss of 629 jobs. Hollande has demanded that ArcelorMittal keep the plant operational or face a possible nationalisation of its French assets.

The standoff is of particular interest in South Africa, where ArcelorMittal has been accused of hampering the manufacturing sector and economy with an import parity pricing policy that, critics argue, keeps steel prices in the country artificially high.

For years critics have been calling for the state to intervene, especially after a high-profile case brought by the competition authorities failed on appeal. The department of trade and industry's chief director of industrial policy, Garth Strachan, has conceded that this is a huge problem.

"South Africa's global competitive advantage is our resource endowment," Strachan said this week. "Unless we use this resource endowment to provide competitive advantage to the manufacturing sector through prices that are below import parity prices, we are letting this advantage fly out the window.

"The government is very conscious of this issue and processes are in place to address this," said Strachan. "The issue of a developmental iron ore price passed on as a developmental steel price is of critical importance to the survival and growth of the manufacturing sector in South Africa."

It is unclear if and when the government could act against ArcelorMittal and whether the intervention would take the form of regulated prices or the threat of nationalisation.

Economists.co.za's Mike Schussler said he is not sure if a regulated price imposed by the trade and industry department would be legal.

"Import parity pricing happens if you have no competition and is not good for the economy"

Showing their mettle: An ArcelorMittal employee takes part in industrial action at a plant in Florange, France. Photo: Vincent Kessler/Reuters

"The department has been trying to deal with import parity pricing for some time," he said. "So far, ArcelorMittal has skirted the issue.

"Import parity pricing will happen if you have no competition," said Schussler. "It's not good for the South African economy."

Schussler said it was important to point out that the French government was not talking about "old-style" nationalisation, but rather a temporary nationalisation to save jobs.

The *Financial Times* reported that during a meeting this week Hollande told steel magnate Lakshmi Mittal he had to guarantee the long-term future of workers at two blast furnaces in Florange, which the company wants to close down.

This followed an attack on ArcelorMittal by France's industry minister, Arnaud Montebourg, who accused the company of "lying" and "blackmail" and said it was no longer welcome in France.

Montebourg is seen by many as a left-wing firebrand and senior French politicians have distanced themselves from his fiery rhetoric, the publication reported.

ArcelorMittal employs 20000 people in France and 260000 globally.

In 2009 ArcelorMittal controversially closed the Gandrange steel site in France, which cost 600 jobs.

Due to a decline in steel consumption, fuelled by the global economic slowdown and the ongoing euro crisis, ArcelorMittal has temporarily closed nine of 34 blast or arc furnaces in Western Europe and an additional four are planned to be shut down permanently, including the two in Florange.