

Opinion & Analysis



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Why government should not meddle

ARCELORMITTAL SA's dispute over the government's refusal to grant it preferential status in the infrastructure procurement programme is one of those odd situations where both parties are in some ways absolutely right, and in some ways totally wrong.

The fact is SA has one large steel maker which the government sold at almost precisely the wrong time to a foreign company.

At the time, Iscor, as the company was known then, was losing money hand over fist, so the government's proxies were delighted to offload the albatross. Presumably since its bargaining position was so poor, the government undertook to supply the company with cheap iron ore, and set some very loose conditions about how the company should conduct itself in the future.

The looseness of this arrangement, essentially a handshake deal, came back to bite the government as the steel industry abruptly turned around in the first decade of the new century. In the government's mind, the agreement was that ArcelorMittal would make a respectable profit but would also underpin the local manufacturing and construction sector by providing cheap steel. In ArcelorMittal's mind, it was happy to help, but it is a business after all and providing steel below the international price is commercially illogical.

Then followed a series of competition law investigations which showed the company was not complying with the handshake agreement at all. The roots of the poor relationship between the government and the company lie in this misunderstanding.

Yet things have changed since then. The deal on cheap iron ore has disintegrated in circumstances that are still contested, as industry watchers now know all too well. But the government's rancour appears to have continued unabated.

So how does this all lead to the odd situation of both being both right and wrong?

The government's current argu-

ment is that its denial of preferential procurement rights to ArcelorMittal is based on its desire to improve competition in the sector. That seems reasonable in theory, except the government's policy sometimes seems very Jekyll and Hyde.

On the one hand, it conceives of government-owned national champions; on the other it seeks to create competition. If it was really concerned with competition, why not allow private railways, for example, as Brazil and Australia do?

ArcelorMittal SA is upset at being excluded, but in some ways it has only itself to blame. Charging international prices for steel products while getting iron ore at barely more than cost was mercenary at best and illegal at worst.

Yet the company has two good arguments. First, the days of cheap iron ore in effect have disappeared. Its era of fabulous profitability has passed too, and that particular mantle has been handed to its iron-ore supplier, Kumba. Second, for better or worse, it is a local company. Buying steel from foreigners might improve competition but it will do little for local job creation.

In short, the government's actions smack of belated retribution clothed in the language of economics. Whatever its past infidelities, the company still has the right to be treated on the same basis as all others. It still has a substantial local shareholder base and remains an important component of local manufacturing. If the government really thinks the local market can sustain another large-scale steel producer, it is free to use its influence to help another player get on its feet. For its part, ArcelorMittal SA needs to demonstrate that it is genuinely a responsible corporate citizen and not abuse its dominant position.

Ultimately, this unfortunate, long-running saga is a consequence of the government trying to manipulate the market by creating a dominant steel producer. It demonstrates, or it should demonstrate, the difficulties that can result from the unintended consequence of that policy. Let's hope it does.

Now that's the way to do it

NEDBANK chairman Reuel Khoza's criticism of the quality of political leadership in SA will find a strong echo in just about every significant boardroom in the country.

Writing in his chairman's statement in the bank's annual report last Friday, Mr Khoza said that "our political leadership's moral quotient is degenerating and we are fast losing the checks and balances that are necessary to prevent a recurrence of the past".

There is little doubt about who he is referring to, as he continues: "SA is widely recognised for its liberal and enlightened constitution yet we observe the emergence of a strange breed of leaders who are determined to undermine the rule of law and override the constitution."

No South African business leader, black or white, has thrown such criticism at a sitting president, let alone a government, since 1994. We applaud him for it and wish more business leaders could find the courage to follow his example or, at least, to support him in public.

It is not that business needs to become a permanent part of political discourse. It has better

things to do — there are profits to make and taxes to be paid.

But neither can business cringe before raw political power (and frequently, outright intimidation) without putting its rights as a corporate citizen at risk.

The fact is, the administration of President Jacob Zuma plays fast and loose with key public institutions. The selections of top judges and prosecutors have become hopelessly tied to the political whims of the president and have often led to blunder and controversy — Menzi Simelane, Willem Heath, Judge Ngcobo, Judge Mogoeng, to mention some examples. In this climate it is little wonder business is reticent to invest more than it does.

Mr Zuma's fiddling with the Constitutional Court has been incredibly destructive and the conniving to get Richard Mdluli back into his job as head of crime intelligence is just as breathtaking.

As polite and restrained as Reuel Khoza's statement might have been, its target was obvious and well chosen. As president, Mr Zuma has gravely weakened key national institutions in a bid to protect himself. Let us hope Mr Khoza's statement helps bring him to his senses.