ArcelorMittal stands firm on its pricing model

Cost of local steel under scrutiny

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CAPE TOWN — Loss-making steel producer ArcelorMittal SA is not in a position to change its import parity pricing model in an environment of high productivity, high electricity costs, and competition from subsidised Chinese and Indian steel imports, says CEO Paul O’Flaherty.

ArcelorMittal has faced a barrage of criticism over the years from the SA Steel Industry Association, Rob Davies and Economic Development Minister Ebrahim Patel over its pricing methodology, which has artificially inflated domestic steel prices. The minerals blame such pricing for inhibiting the growth of downstream manufacturing industries.

They have gone so far as to seek the establishment of an alternative steel mill, which is still on the drawing board. Sasaol has also been accused of strangling the local plastics industry.

"Pricing is not as big an issue now. The biggest constraint is electricity,” Mr O’Flaherty said.

However, a high steel price was not the dominant issue to emerge from a colloquium on beneficia
tion held over the last two days by Parliament’s trade and industry portfolio committee. Beneficiation is a key part of the government’s Trade and Industry’s industrial policy action plan.

Cited as more significant con
dstraints by participants were the limited and erratic supply of electricity, labour problems and import controls, in what may be a shift in the official position, Trade and Industry director-general Lionel国庆seemed to agree.

He conceded that the global glut of steel had reduced the price and that this was no longer such a burning issue as it had been a few years ago.

He agreed that a holistic approach was needed and that steel pricing was just one issue.

"Pricing is not as big an issue now. The biggest constraint is electricity," he added.

Mr O’Flaherty, a former chief financial officer of Eskom, stressed yesterday that Arcelor-
Mittal was a company that needed to make a profit or it would die.

“We are prepared to start talking about pricing but we need to get the fundamental cost base right. We are not making profits so it is very hard to have a discussion about what you should be charging for your product.

“We are in assistance in terms of import controls against China and India flooding the market with subsidised raw steel,” he said.

There should also be a requirement that local steel be used for major government projects, he said. The government’s model has been weak, and ArcelorMittal is not producing at full capacity.

Mr O’Flaherty said there needed to be a holistic discussion about ways to enable the company to offer a better price. He noted that for 85% of ArcelorMittal’s end-users steel only represented 5%-25% of their total costs.

Steel and Engineering Industries Federation of SA (Seifsa) CEO Kaizer Nyatumbha highlighted the damaging effects of import controls.

"Seifsa chief economist Henk Langenhoven too advocated a holistic approach, saying this would have better chances of success than one that was based on the stages of production.

"It is not only input costs that we must worry about." Mr Langenhoven said administered prices and physical infrastruc
ture bottlenecks were often underestimated as inhibitors of the manufacturing sector.

"Higher levels of policy co-ordination are needed urgently," he said.

The sector was replacing domestically produced intermedi
date inputs with cheaper imported components for local assembly to cut costs and stay competitive, Mr Langenhoven added.

Manufacturing Circle executive director Coenraad Bezuidenhout noted that conditions in the manufacturing sector were deterior
ing due to labour market instability, high wages and admin-
istered costs; competition from imported goods; low labour pro-
ductivity; a skills deficit; and subdued consumer demand in a low-growth environment.

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