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NEVA MAKGETLA: ArcelorMittal SA’s woes highlight crisis in steel industry

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ArcelorMittal SA's Vanderbijlpark plant. Picture: SUPPLIED

ArcelorMittal SA’s (Amsa) threat to close its Newcastle plant reflects the long-term structural crisis in the SA steel industry. For three decades domestic demand for steel has been essentially stagnant, and Amsa’s exports have fallen from 2006.

In this context, domestic and foreign competitors have squeezed Amsa's market share. Responses to its predicament must take these deep-seated structural challenges into account.

In volume terms domestic sales of crude steel, as well as exports, are at levels last seen in the late 1970s. From 2006 to 2023 local steel sales shrank 2.6% a year, and exports by 4.2%. The long-run stagnation in SA steel sales reflects a fundamental shift away from steel use.

In constant terms the amount of steel consumed per trillion rand of GDP dropped by more than two-thirds from 1976 to 2022. In the late 1970s steel output climbed by about 1.7% for each 1% increase in GDP. In the late 2010s, GDP grew 1% a year on average but steel sales dropped over 2% a year.

Since the pandemic downturn in 2020 steel consumption has risen faster than the GDP as a whole and is now 1.7% above 2019 levels. However, exports are still almost 20% below 2019 levels.

Long-term decline

The long-term decline in steel intensity reflects an international trend arising from the shrinking share of goods industries in advanced economies; surging reliance on plastics and metal alloys in production and construction; and the continual downsizing of machinery and appliances.

Internationally, expanding construction and manufacturing in lower-income countries, especially China and more recently India, offset the trend. Still, outside China, consumption of steel per person declined over the past 40 years. It also fell in the rest of Africa from 2012 to 2023.

Meanwhile, increased competition shrank Amsa's market share in SA and in exports. Local competitors raised their share in domestic steel production from under 40% in 2015 to 45% at the end of the decade and 60% in 2023. Most of the competition came from new mini mills that have lower costs, though they do not produce some higher-grade products.

These mills benefited from state support, especially measures to hold down the cost of scrap, a key input for mini mill production, and financing from the Industrial Development Corporation. Meanwhile, imports climbed from a 10th of domestic steel consumption in 2006 to a seventh in the late 2010s and over a quarter in 2023.

The combination of flat demand and rising competition has squeezed Amsa across all its operations, not just in long steel. It had losses in seven of the past 10 years; its production has dropped by more than half despite substantial and largely successful cost cutting; and it is operating at under 60% capacity. In long steel, Amsa argues that domestic demand is now about 1.8-million tonnes a year, while national production capacity is 2.7-million tonnes.

All of these factors contributed to SA being the worst performer of major steel producers globally in the 2010s. The country's share in world steel production, excluding China, dropped from 1.3% in 2002 to 0.8% in 2012 and 0.5% in 2022. If we include China, SA's share in 2022 was just 0.2%.

Trying to turn back the clock will not deal with this kind of structural decline. Amsa has essentially called for measures to raise production costs at the mini-mills by making it easier to export scrap, so that the cost to domestic users would rise to match international prices. That approach would let exporters of raw scrap capture the rents at the cost of local manufacturing.

Ultimately, it would improve conditions for Amsa by reducing the long-term competitiveness of SA steel production. A more sustainable approach has to focus on finding solutions that improve the productivity and range of the steel industry as a whole.

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