

NEVA MAKGETLA: Amsa's downsizing shows up SA's industrial policy crisis

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A stainless steel production line. Picture: REUTERS

The proposed closure of ArcelorMittal SA's (Amsa's) long steel production lines highlights a long-standing crisis in SA's industrial policy. From the 1920s through the democratic era that policy in effect prioritised heavy industry. Increasingly, that approach has become politically and economically unsustainable.

Amsa originated as the state-owned Iscor in 1928. It was privatised in 1989 and in 2006

was integrated into ArcelorMittal, the international steel firm. It contributes about 5% of ArcelorMittal's global output. The proposed downsizing will directly cost about 3,200 jobs and R10bn in sales. The effect on downstream manufacturers, which employ about 100,000 people, remains unclear.

Iskor's original success was predicated on high-quality, cheap iron ore; low-cost Eskom electricity; and efficient, affordable Transnet freight. The trinity of Eskom, Transnet and Iskor formed the central pillar of what academics call the minerals-energy complex (MEC), which Sasol joined in the 1950s.

The MEC pathway unravelled over the past 30 years for three main reasons: rising pressure for more inclusive growth; economic opening; and the emergence of smaller-scale technologies.

Historically, the state supported the mining value chain through reliable low-cost infrastructure. Its investments maintained exports and mining rents but did little to generate new employment or tackle infrastructure backlogs in black communities. That made it hard for the democratic state to prioritise them, which underpinned the long-run decline at Eskom and Transnet.

In 2022 Amsa estimated that load-shedding reduced its output by R95m; transport delays cut its sales by R600m; and it paid R500m extra for road freight. Yet Eskom and Transnet raised their tariffs far above inflation for most of the past 15 years.

The opening of the economy from 1990, just as globalisation gained pace, added to Amsa's woes. Steel imports surged from 5% of SA consumption in the early 1990s to 16% in 2023. Local industry, including Amsa and Eskom, also ended up paying more for coal and iron ore.

As part of the MEC strategy the mines charged domestic partners below export prices, in effect relinquishing some rents to expand domestic demand. However, in the past two decades the coal and ore mines have greatly reduced the price concession for domestic customers.

Moreover, after 2006 Amsa was subject to ArcelorMittal's global strategy rather than SA's industrialisation needs. In constant rand the value of Amsa's assets has dropped by half. It has long reported low returns despite comparatively low production costs, suggesting liquidity was being transferred out of the country. In these circumstances, when Amsa's sales collapsed by half from 2020, downsizing was inevitable.

Finally, the behemoths of the MEC face rising competition from new, far smaller-scale technologies. In steel, scrap-based minimills have far lower initial costs than

traditional producers. Eskom is being undercut by renewable energy, which is now cheaper and cleaner. Its own coal plants are ageing and badly managed.

In response, it has tended to raise its tariffs, further squeezing demand and pushing up its unit costs. In 2009 Amsa used 2% of Eskom's total electricity output. By 2022, as it gradually moved towards less electricity-intensive technologies, its share fell to under 1%.

In many ways SA is now paying for the historic success of the MEC. The big metals and coal refineries support concentrated ownership, generate relatively few jobs directly, face harsh global competition, and can no longer count on low-cost inputs or infrastructure.

Yet as an industrialisation model the MEC has major strengths. It is built on SA's resource base and expertise; performs really well when world prices are high; and enjoys extensive, entrenched support systems in both the public and private sectors.

In these circumstances, scaling up state support for more labour-intensive manufacturing and services, which are needed to build a more inclusive economy, inevitably seems too risky and disruptive.

Now, as the MEC reaches its growth limits, SA still has not found a robust strategy to replace it.

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