AMSA: the sound and fury of a partial closure
27 January 2025

Returning from a very relaxing holiday in Namibia, we walked into a storm around the closure of the long steel business by ArcelorMittal South Africa (AMSA). The saga concerns more than just steel – it is about public policy issues on tariffs, import protection, localisation and industrialisation. It is worth unpacking a bit.

Origin and history

AMSA, started life as Iscor, the South African Iron and Steel Corporation, way back in the 1920s. It was established by Hendrik van der Bijl, the pioneer who single-handedly industrialised South Africa and who also started Eskom, the Industrial Development Corporation (IDC), Safmarine and more. Over the years, Iscor played a huge role in South Africa's industrialisation, producing the steel essential for a modern industrial economy. It really consisted of 2 businesses:

- steelmaking with furnaces at Pretoria, Newcastle, Vanderbijlpark, Vereeniging and, later, Saldanha; and
- mining, producing iron ore and coal.

Very important: the company could source its own iron ore to produce steel.

In 1989 Iscor was privatised and listed on the Johannesburg Stock Exchange (JSE). In 2001, the company was split into 2: Iscor (steelmaking) and Kumba Resources (mining). In 2006, Kumba Resources was split into Kumba Iron Ore and coal-mining interests, which formed the core of today's Exarro Resources.

Iscor enjoyed a preferential price for iron ore from Kumba Resources in a cost-plus arrangement. However, after Kumba Resources split up, disputes arose on the terms of the agreement and Kumba Iron Ore cancelled it in 2010. A new agreement on more market-related terms was agreed in 2013 – and this must have hit Mittal Steel's profits.

Today, AMSA manufactures long and flat steel. 'Long products' include reinforcing bars for reinforced concrete, beams, channels and angle iron for structures for industrial buildings and plants, transmission towers, rails for railways and many others. 'Flat products' refer to all forms of plate, like the sheets that become corrugated iron, the plates for the bodies of cars and trucks or for manufacturing a wide variety of secondary products for the building industry, and many others.

Long steel is more than 50% of AMSA's business – and that is what is being closed down. The flat steel business will carry on.

Global context

In the first half of the previous century a steel industry, like a national airline, was seen as part of a country's prestige. Many governments built steel plants. This led to a huge oversupply of steel internationally and many steel producers got into financial troubles. Indian entrepreneur Lakshmi Mittal saw the gap. He started buying up steel businesses, rationalised them and sweated the assets. He bought Iscor in 2004, changing the name to Mittal Steel. In 2006, he bought the French/European steel company Arcelor. As a sop to furious European opposition, he changed the name to ArcelorMittal. In this process Mittal became fabulously wealthy and helped to drive the rationalisation of the global steel industry.

His was not the only rationalisation initiative. The once mighty British Steel (itself a product of massive rationalisation) was merged with the Dutch Koninklijke Hoogovens to form Corus Steel. Tata from India bought Corus Steel, closed facilities, and now Britain produces only 25% of earlier volumes. Rationalisation is still carrying on as we see with Nippon Steel from Japan trying to buy US Steel, a transaction that President Joe Biden vetoed.

A friend of mine who spent his working life in steel construction retired and became a professor at the Stellenbosch Engineering Faculty. About 8 years ago he guided an M student to do a thesis on the development of alternative steel beams made from welded flat steel, should AMSA close its long steel plant in South Africa. The closure of the long products plant has been expected for more than a decade, due to global consolidation.

The rise of the mini mills

Steel is made from iron ore, but it can also be made from scrap metal. This is done in a mini mill. By using electricity, scrap metal is melted at very high temperatures and steel comes out on the other side. It is a completely different technology from the production of steel from iron ore. Importantly, mini mills manufacture long steel products, making them direct competition for the AMSA long steel business.

Today, mini mills produce 50% of South Africa's long steel demand.

Government policy actively supported mini mills with a highly controversial policy called PPS – Price Preferential System. Scrap dealers in South Africa must offer their scrap to a mini mill in South Africa at a price equal to the international price of scrap in Rotterdam minus 30%. In that way, the mini mills in South Africa can get scrap metal at a preferential price and make cheaper long steel. AMSA is naturally very upset about this arrangement and want it scrapped. The PPS is scheduled to expire on 31 July 2027 but it could be renewed. Since 2022 there has also been a ban on scrap export to reinforce the PPS. The 2 policies are complementary.

Worldwide there is a huge shortage of scrap metal. Some 30% of the 1,9 billion tonnes of steel produced worldwide comes purely from scrap, and even the steel made from iron ore has more than 20% recycled content. So, there is a huge demand for scrap globally and prices reflect that – it is very profitable to export scrap.

There is the public policy choice: let scrap be exported or keep it here to produce long steel? Is it beneficiation or just a subsidy or both?

Between the PPS, the export ban and IDC support, the mini-mill industry grew from non-existent 17 years ago to providing 50% of SA's long steel today. It is an open question whether they will survive if they lose the preferential price arrangement and export ban. A few are now in business rescue. As in all business sectors, one can assume some will survive and some not.

ArcelorMittal also uses scrap metal in its process and thus benefits from having cheap scrap available, but not nearly as much as the mini mills do. It never invested in the very different machinery and technology needed to make steel from scrap. Had AMSA done that, it could have benefited from the same arrangements as the mini-mill competitors. In fact, there is a lot of criticism of AMSA's capital allocation decisions over the years, but I will not wade into that.

It is worth noting that a big mini mill, Scaw Metals, is producing hot-rolled coil that is currently not being supplied to the market by AMSA as well as high-grade steel for safety-critical applications that they are exporting to North America, Europe, Australia and even China! The idea that all mini mills are just riff-raff operations is nonsense.

Steel market in SA

South Africa has the capacity to produce 8.8 million tonnes of steel a year. Last year, total demand was only 4.1 million tonnes. The steel sector argues that if the economy grows at a higher rate, the demand will be more than 4.1 million tonnes, which will create living space for everybody. The demand for steel is indeed very sensitive to the growth in the economy – 3% is way better than 1%.

However, of the 4.1 million tonnes South Africa consumed last year, 1.3 million tonnes were imported (32%). Why do we import 1.3 million tonnes if we have 8.8 million tonnes capacity?

It comes down to price and variety. Steel is not just steel and not all steel products are created equally. Often, products are required that are not manufactured in SA because the market is too small, or local producers do not meet the required quality, or it can be obtained cheaper elsewhere. For example, in the past South Africa imported several thousands of tonnes of railway tracks a year because it was simply too expensive to make here. Currently, some 300 000 tonnes of steel are imported annually for the motor industry as the required quality cannot be manufactured here. If demand goes up, we may find that imports go up too.

More capacity that may affect the SA market is being added. A Chinese company has established a brand-new steel plant in Zimbabwe and the first imports have already arrived in South Africa. More imports from SADC into SA is not bad, but it does pressure local producers. Chinese interests are also working to establish a steel factory in Limpopo, albeit against heavy opposition from environmental groups. If it actually happens, it may take a lot of local production out of business.

Tariffs

So what is to be done now?

AMSA is asking for a higher tariff on imports and the scrapping of both the PPS and export ban on scrap. Currently, there is an import tariff of 9%, but AMSA wants 25%.

Downstream manufacturers and traders are opposed to tariffs because it makes steel more expensive for them (and the rest of society).

An acquaintance in the steel industry relates the story of South African downstream fabricators who moved to America, complete with their machinery. Once there, they discovered that steel was too expensive to make the products they made here. In his first term, President Donald Trump imposed a 25% tariff on steel. One man's tariff is another man's higher cost. South Africans had to put their machinery into storage.

That brings us to the heart of the matter. Must local users pay more to keep producers going? It is the oldest argument around localisation policy. There's no right or wrong answer – it comes down to a public policy choice. And it does not only apply to steel.

We can import chicken cheaper than we produce locally. Chicken is the country's biggest source of protein. People now pay more for their protein because we pay an import tariff. Cheaper chicken or a local chicken industry? Make your choice.

Nevertheless, on 29 November 2024 SARS imposed provisional duties of 52.81% on structural steel imports from China and 9.12% from Thailand. These will remain in force for 6 months until 28 May 2025 while ITAC, the International Trade Administration Commission, investigates the accusation of steel dumping and prepares its recommendations. (Note: 'structural steel' refers to steel already undergoing some further fabrication, like welding pieces together, drilling holes, etc.)

What now?

Interestingly, AMSA has painted quite a bullish picture of life post long steel. Their managing director, Kobus Verster, said if they stop the long steel business and redeploy the capital, they can do quite well in the remainder of the business. There is life after long steel.

However, after talking to a variety of people, the consistent feedback is that AMSA will have to improve its customer service. There is allegedly a 'take it or leave it' attitude, which is not going down too well with downstream customers.

For the consumers of long steel there are also life after the AMSA closure as mini mills are already producing 50% of SA's long steel. The mini mills may well start making some of the smaller products historically made by AMSA.

In another example of life after AMSA long steel, the CEO of NAACAM, the automotive component industry body, while lamenting the closure of the plant in Newcastle, pleaded that the Newcastle closure be postponed by a year, allowing them to buy time to transition local mini mills into certified suppliers of automotive grade steel. Upgrade and stay in the game.

Of course, that does not help the workers and small businesses in Newcastle, Vereeniging and elsewhere. Like steelworkers and steel communities worldwide, they are the victims of over-capacity and too much production. It is a moral and political obligation to help them. Government may well yield to this pressure; we will see in the coming days.

Industrial policy

A constant refrain in public debate is that South Africa should have a vision and a policy for 'reindustrialisation' and manufacturing. I am deeply sceptical of such vague exhortations. They reflect more a passionate desire for the past than an implementable plan for the future. Japanese economist Richard Koo coined the term 'persecuted economies' to refer to the once strong manufacturing nations that are now struggling to keep their manufacturing bases intact. As he puts it, their 'golden era' of manufacturing is past them. The UK, Europe, the US and Japan are examples he quotes.

The persecuted economies and industries compete with Indo-Asia, particularly China. The latter has the critical elements for manufacturing: technology, scale and skills. How would lesser producers survive when both Tesla and German car manufacturers lose market share to Chinese car manufacturers (Tesla, particularly to BYD)?

There is, of course, a new trend all over the world to impose tariffs, and Trump will accelerate it. Whether that changes any of the underlying commercial dynamics remains to be seen.

So what?

- There is huge overcapacity in the global steel industry. Steel can be sourced and imported cheaply from many sources. Despite the big over capacity locally, SA still imported 32% of the steel it consumed.
- Several developments over the years pressured AMSA's profitability: it lost the preferential price it once enjoyed in buying iron ore; the rise of the mini mills brought local competition in long steel; customers complained about poor service; and there is criticism of poor capital allocation. It all adds up.
- It remains to be seen if mini mills can operate without the preferential price arrangement and export ban on scrap metal.
- AMSA is closing only its long steel business. Steel plate production will continue.
- With 50% of long steel provided by mini mills and about 32% of consumption imported, reports that the whole steel industry would die are simply exaggerated.
- The public policy choice is the same as for chicken: put up tariffs and protect a single industry, or let the consumer pay less and have more choice. That's a tough public policy choice.
- The rise and collapse of industries is part and parcel of life.
- When industries collapse, jobs are lost, capital is destroyed, and support industries are hit very hard.
- The emphasis should, therefore, not so much be on protecting industries but rather protecting workers – helping them to retrain, relocate and restart. And industrial policy must support new industries – not protect declining ones.
- For South Africa, the option is to have an industrial policy that is laser-like focused on the areas we can compete in (like green energy, tourism and conservation), develop capabilities (like hospitality and personal services) and expand from existing successes (like agriculture and maybe mining).

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