Summary Brief: The crisis in the steel industry

The crisis in the steel industry is evident through a number of measures. Steel production declined by 15% from 2010 to 2015, for a total fall of 33% from 2008. In dollar terms, steel exports fell by 32% from 2010 to 2015, and ferro-alloys dropped by 24%. Profitability in the steel value chain shrank quickly from 2010 to 2014, with basic iron and steel posting losses for most of the past five years. The losses sparked a run of closures, with the number of foundries in South Africa declining from 140 in 2009 to 95 in 2014, and key ferro-alloy producers Evraz Highveld and Samancor forced into major restructuring. Iron and steel refining shed 30 000 jobs between 2011 and 2015, with ferro-alloy producers applying for a further 3 000 retrenchments in the first quarter of 2016 alone.

The root of the crisis is the global steel glut, which saw unit prices for South African exports of flat rolled steel fall 32% between 2011 and 2015. Overproduction results largely from the rapid expansion of global steel supply from around 2003, fuelled almost exclusively by a tenfold increase in Chinese production between 2000 and 2014.

As the Chinese economy cooled from around 2010 and the state undertook to shift towards domestic consumption, Chinese steel exporters turned to foreign markets. Chinese exports of rolled steel globally climbed 2,5 times from 2010 to 2015, and they multiplied six times to South Africa. Even though the (dollar) unit price fell by 25%, the value of South African imports of all iron and steel products rose from US$206 million in 2010 to US$474 million in 2015. In the same period, South African producers of steel and steel products faced stagnant domestic demand from the end of the commodity boom, with slowing growth in infrastructure investment.

The South African steel industry has strong comparative and competitive advantages that mean it can once again become a valuable asset for national development, should it survive the current glut. The industry can draw on unusually high quality iron and ferroalloy ores, supported by very efficient dedicated transport networks (thanks to Transnet). It boasts a number of world-class steel and ferro-alloy producers and fabricators.

But government support is needed to see the industry through the current downturn. That support cannot be reduced to a bailout or measures to protect the domestic market through tariffs and local procurement policies, although these measures have to form part of the mix. Rather, it must improve the industry's overall long-term competitiveness. That means targeting key cost drivers, such as inadequate investment in modernised facilities, especially in the refineries; surging electricity costs; poorly designed transport costs that burden steel production and exports while benefiting iron ore exports; regulatory challenges; and export-parity pricing by iron-ore producers and scrap-metal recyclers.

A full copy of the *Briefing Note: The crisis in the steel industry* is available to download at www.tips.org.za/publications/the-real-economy-bulletin.