**THE NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**Question 3401**

**Mr W M Madisha (Cope) to ask the Minister of Trade and Industry:**

Whether the Government has taken any concrete steps since 1 January 2010 to ensure the continued viability of South Africa’s steel industry in view of the self-evident fact that cheap imports of steel from China were putting the local steel industry under immense pressure and that the export of scrap steel was seriously exacerbating that problem; if not, (a) why not and (b) what has been the consequence of not taking any timely and concrete action; if so, (i) what steps has the Government taken in the past seven years to ensure the viability of the steel industry and (ii)(aa) to what extent and (bb) in what manner has the Government succeeded in this regard? NW4061E

**Response:**

1. Government has responded in a number of ways to ensure the long-term viability of the strategic iron-ore and steel industry in SA since 2010. Therefore (a) and (b) above do not apply.

Government convened an interdepartmental task team on iron and steel (IDTT) in 2010, to develop a set of inter-related policy instruments and interventions. These included;

* A process to secure a domestically produced steel price in the lowest global quartile of steel prices, working in close collaboration with stakeholders, especially the largest domestic steel producer Arcelor-Mittal. In so doing to ensure that domestic comparative advantages at the time, especially a cost plus price for iron ore, was passed on to downstream users of steel,
* Processes to increase competition in the domestic steel industry to support the same objective,
* An intervention to curtail the unencumbered export of scrap metal to ensure security of scrap metal supply to domestic steel producers at competitive prices; prevent the associated illegal export of precious metals; limit the extent to which the associated theft of critical infrastructure such as cables was carried out and lower the carbon intensity of the economy,
* All these and other measures were designed to ensure both security of supply and competitive steel prices in support of downstream manufacturing and value addition as a competitive advantage for domestic, labour intensive manufacturing.

Arising from the work, Cabinet approved a set of recommendations made by the IDTT in December 2012. These included:

* A process led by the DMR to amend the Mineral Resources and Petroleum Development Act (MPRDA) to secure a competitive advantage for the manufacturing sector arising from South Africa’s enormous resource endowment, especially in key value chains; inclusive of iron ore and steel.
* A process led by the EDD to utilise the International Trade Administration Act to safeguard the supply of affordable scrap metal to domestic mills and curtail the abuse of export of scrap metal.
* A process to amend the Competition Act led by EDD to ensure that iron ore price concessions are indeed passed on to downstream users, and
* An Industrial Development Corporation led process to secure new steel investments to increase domestic capacity and strengthen competition in the steel sector.

1. (aa) and (bb) Significant progress has been secured in many of the above areas. This is despite the fact that there was, over an extended period, a sub-optimal level of cooperation from the major steel producer. This during a period which coincided with the global commodity boom, where market conditions included both high demand and high prices for steel which in turn translated into high margins and profits as well as the fact that input costs for the major steel producer were relatively low. Finally and most critically a set of circumstances which included the fact that, notwithstanding favourable market conditions, there was very little maintenance and capital investment in plant and machinery carried out by the major domestic steel producer over an extended period of time. This was a contributing factor to at least seven significant plant breakdowns of AMSA facilities across the country. These latter factors combined, clearly constituted a significant danger to the competiveness, including with respect to technology issues, of the domestic steel sector.

Notwithstanding this major constraint, progress has in fact been registered and will find reflection in significant new and collaborative approaches and platforms, which will place the sector on a firmer foundation going forward. These include the following;

* In September 2013 the Price Preference System for scrap metal was introduced, compelling all SA scrap dealers who wished to export scrap metal, to offer this firstly to local users at a pre-determined price less 20 percent. Export permits are only granted when ITAC is satisfied that there have been no offers from local users. Although this measure was widely supported, there have been challenges with the current system including resistance and circumvention by scrap dealers. Government is therefore examining options to introduce further measures to curtail the unencumbered export of scrap metal, cognisant of South Africa’s obligations under the World Trade Organisation and its bi and multi-lateral trade agreements. An announcement in this regard will be made in due course.
* Led by the Industrial Development Corporation (IDC) government has embarked on the Masorini Project, aimed at securing a multi-billion rand investment in a new steel production facility in SA, for both the local and regional market. The IDC has completed a pre-feasibility study and government is in discussions with a potential operating partner. The project is proceeding according to plan and the long time-lines commonly associated with a major investment of this type. The next phase in the project cycle will be to negotiate the terms and conditions for the investment, inclusive of those set out in the feasibility study, and involving technology specifications, the range of products to be produced; regulatory issues such as the Environmental Impact Assessment (EIA) requirements and the infrastructure support required for a multi-billion investment of this nature. Further announcements will be made in this regard in due course.
* Processes have reached an advanced stage to secure a competitive iron-ore advantage for local steel producers. **the dti** and DMR will define the conditions for the allocation of a significant mining right which will mean that a cost plus iron-ore advantage will be ‘passed through’ the steel production process to provide a competitive price advantage to downstream manufacturers.
* Government has also registered significant progress in its efforts to address a range of issues with Arcelor-Mittal (AMSA), in the context of far less favourable steel market conditions. Government is currently negotiating an integrated set of both policy and industry reform measures that would have to be adopted to achieve the objective of a sustainable steel industry in SA, inclusive of the specific needs and interests of the small steel producers and the downstream manufacturing sectors. In this context it is important that the independence and integrity of the processes underway involving the Independent Tariff Administration Commission (ITAC) and the Competition Commission, be respected. Working within these parameters and in close collaboration with the Economic Development Department (under whose authority both institutions fall), **the dti** will ensure that such supply side protective and support measures are conditional on a competitive pricing policy, increased levels of maintenance and investments, a potential rebate system that will support downstream manufacturers as well as transformation and BBBEE commitments. Announcements in this regard will be made in due course.

**the dti** is fully cognisant of the extremely adverse conditions in the global steel market characterised mainly by significant oversupply and declining demand and which, taken together with other factors summarised above, constitute a threat to the viability of the domestic steel sector.

Therefore as a first step in the broader process set out above, I have approved the ITAC recommendation for tariff increases on certain steel product lines. In addition a number of other applications for tariff protection and anti-dumping duties are in the pipeline and will be given urgent consideration in the context of a set of conditions set out in summary above and which are the subject of urgent and on-going consultation between all the stakeholders.