ArcelorMittal Reviews the Viability of Africa Mill

ArcelorMittal South Africa Ltd. fell to its lowest level since 2002 in Johannesburg trading after the company said it will review the viability of Africa's biggest steel mill and a cabinet minister criticized its pricing policy and maintenance programs.

The company said in a statement that it will complete a study of the loss-making 3 million metric ton-Vanderbijlpark steel mill, south of Johannesburg, by the end of October and will also probably close parts of its nearby Vereeniging plant, cutting 400 jobs.

ArcelorMittal took control of the formerly state-controlled company in 2003 and used a policy of charging customers the equivalent of what they would pay to import steel, against government objections because it had also been given a discount on iron-ore prices. Now Chinese imports into South Africa are below the company's cost of production and it is seeking import tariffs in addition to a 10 percent levy imposed by the government on some steel products.

"The sustainability of the local steel industry and the prevention of job losses remains ArcelorMittal South Africa's primary concern," the Vanderbijlpark-based company said in the statement.

The stock fell 15 percent to 9.96 rand at the close, the lowest since January 30, 2002. The company's Luxembourg-based parent is the world's largest steelmaker.

"A lack of maintenance, capital equipment and upgrades to aging plants contributed to seven catastrophic plant breakdowns at various of its plants across the country," Rob Davies, South Africa's trade and industry minister, said. "Working together in a collaborative, mutually beneficial relationship will always bring better, and even optimal, results and marry the needs and economic realities of the private sector with the country's needs," he said.

The company is in talks with the government on capping steel prices should it receive protection from imports, Chief Executive Officer Paul O'Flaherty said on July 31. Competitors, including Evraz Plc's local unit and Scaw Metal Group, have previously announced plans to cut more than 2,000 jobs.

Sponge Iron Producers Keen to Bid for Captive Mines

Sponge iron producers, which source their key input iron ore from the open market, have urged the mines ministry to advise states to allow them to bid for captive iron ore mines in the forthcoming auction of mineral leases.

Currently, under the Mineral (Auction) Rules, 2015, only integrated steelmakers are allowed to bid for captive ion ore mines. "Iron ore constitutes more than half of the cost of production of sponge iron. Having a captive source of iron ore would give us the opportunity of sustainable operations and growth," said Deependra Kashiva, executive director, Sponge Iron Manufacturers' Association.

India's sponge iron industry is the world's largest, with around 48 mt installed production capacity. These units, mostly located in the tribal districts of Odisha, Chhattisgarh, Karnataka and Jharkhand, buy iron ore from the open market. There are some 300 such units of varied size, ranging from 0.2 mtpa to 1 mtpa and they use mostly low-grade iron ore and domestically available coal. The units cater mostly to secondary steelmakers which contribute 56% of domestic steel production.

Sponge iron plants use both lumps and fines that also help sustainable development of mines. Around 30% of the total sponge iron produced in India was manufactured utilising iron ore fines.

At full capacity, the industry would need around 92 mt of iron ore a year, Kashiva said, adding that utilisation was just 40% last fiscal. Captive mines would help the industry to hedge from the vagaries of price fluctuations and secure supply, he said.

Reiterating Sima's plea, Tata Sponge Iron, in a subsequent letter, said the country's target of making 300 mtpa steel by 2025 can only be met if the secondary steelmaking route expands significantly.

"The expansion of the secondary steelmaking route will necessitate efficient and environment-friendly sponge iron units to operate cost effectively, thus requiring the captive raw material source for such sponge iron ore units," Tata Sponge Iron's managing director DP Deshpande wrote.

Sponge iron units were considered a separate class in the allocation of captive coal blocks earlier and the said separate identity has also been retained in the recent coal auction, he added.