Presentation by International Steel Fabricators of Southern Africa to the National Assembly:

Portfolio Committee: Trade, Industry and Competition

on the Steel and Fabrication Master Plan (SMP 1.0)

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International Steel Fabricators of South Africa (ISF)

Founded in 1991 by five large South African groups with SAISI facilitation to join resources and make inroads in the international steel construction markets beyond Africa: an example of a successful “SA (Inc).” approach!

Major successes in the Middle East in the 1990’s.

Since 1999 in dtic Public-Private-Partnership as registered Export Council and registered as a membership-based Public Benefit Organisation.

ISF members: Integrated steel value chain with focus on downstream manufacturing ("big irons") only excluding iron ore mines and end clients

- Primary steel production and distribution: Local Integrated mills (AMSA) and most major steel stockists & service centres. (Latter primarily responsible for supply to our sector).
- Commercial structures e.g. warehousing, factories, shopping malls.
- Industrial structures e.g. thermal power plants, petrochemical.
- Mineral structures e.g. mine plant housing, mine shafts and towers, tankage, pipe spooling and racks.
- Leisure structures e.g. stadiums.

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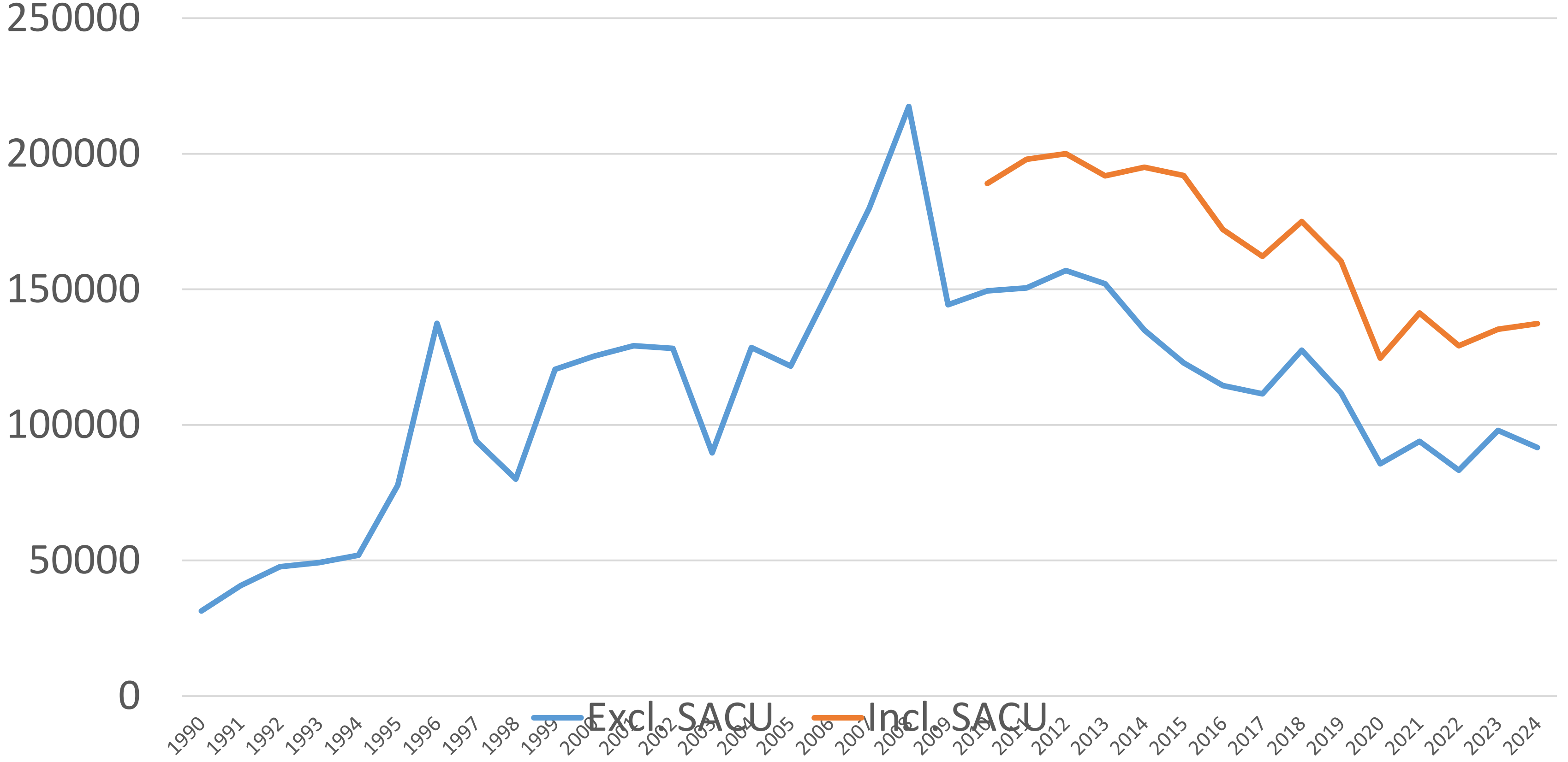
- Rail, road and pedestrian bridges. Air and shipping port structures.
- Pressure equipment e.g. steam boilers, tanks, petrochemical processing.
- Client designed mineral processing e.g. international main contractor houses especially Australian and Canadian, Scandinavian OEM's high

(Avoid branded products, handled by sister Capital Equipment Export Council.)

(Also the members of the Mine Equipment Manufacturers of SA (MEMSA) that apologises for not being able to present today, who in in broad agreement with the ISF's views.)

- Project insurers

SARS statistics: Tonnage exports of just steel structures not included in stage consignments for projects or part of equipment (real export tonnage estimated at about double)



General status of the ISF subsectors: in growing distress like the rest of the steel industry (excluding only the mini mill industry due to the forced vast subsidisation and the IDC investment and support)

- Started with collapse of global boom around 2008 and general contraction of steel use in SA.
- Further accelerated with the completion of World Cup 2010
- End of Medupi and Kusile saw the start of end for most of the larger structural fabricators
- The global rule of thumb advises that steel industries, in general, only start growing when the surrounding economy grows consistently above 2% to 2,5%, SA already dipped below 2% in 2014.
- We lost many of our major project house members that spearheaded our products into Africa i.e. Group-5, Basil Read, Murray & Roberts & Aveng.

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Also lost the four largest structural fabricators in SA i.e. Dorbyl Structural Engineering, GENREC, Cosira and Tubular Holdings all closed down, also numerous others.

- **Excluding rebar, rod and wire, this sector is the largest formal users of graded high-quality long products for very diverse but general safety-critical applications.**
- **Therefore critically dependent on the ArcelorMittal Long Products Division as the only local mill that can produce the quality, quantity and range combination of primary steel product required.**
- Due its local and foreign client base requirements and specifications, this industry largely cannot use scrap-based local mini mill produced steel due its inherent varying quality and can typically only use a small quantity for its non-safety critical applications.
- **Despite the believes of the mini mills, the IDC and the dtic linked advisers TIPS, if this Division closes down, the bulk of this industry's input materials will need to be imported!**

Programmes of the Steel and Fabrication Master Plan 1.0 3-year plan. June 2021 – May 2024 (SMP), then revision. (Excellent research kicked off September 2019 i.e. about 6 years ago.) – general industry consensus: it failed!

SUPPLY-SIDE MEASURES	DEMAND-SIDE MEASURES	CROSS-CUTTING MEASURES
1. Input cost reduction in the value chain and availability	7. Infrastructure programme and localisation	11. Industry cohesion and steel industry development fund
2. Establishing industry and product standards	8. Import replacement	12. Transformation
3. R&D, innovation and the fourth industrial revolution for productivity and competitiveness	9. Product value chains	
4. Resource mobilization for investment and stabilization	10. Exports	
5. The primary steel industry and steel prices: carbon and stainless steel		
6. Training and mentoring		

ISF Executive Summary: Steel and Metal Fabrication Master Plan (SMP)

- The SMP still remains the best ever comprehensive research done to date on the complete Steel value chain and highlighting its numerous and diverse aspects and issues.
- We have noticed the best efforts of many in the dtic family as well as their linked consultants, TIPS, being the appointed Project Management Office (PMO) for the implementation of the SMP since June 2021.
- We are aware the dtic still references the SMP as their current plan for this industry and have started a review process recently. We listened to the Portfolio meeting proceedings on 6 May 2025.
- We have listened to the various SMP-influenced successes reported to the Committee on 6 May; but they all appear as mini and micro successes in terms of the major overall Plan.

- The SMP is not responsible for the current woes of the industry , it was proposed as a remedy for an industry starting to fail after the first decade of this Century. It aimed to change a failing industry into a growth industry.
- **However, the ISF cannot disagree with the general consensus of industry that <u>the Plan has failed</u> in its main objectives:**

- the industry in general continues to fail, volumes are still dropping,
- exports are dropping as export of scrap steel billet is viewed as primarily an export of electricity on top of plain scrap exports.
- the de-industrialisation trend is continuing and
- **<u>the only local steelmaking producer of primary long products capable of providing the formal industry with the quality, quantity and range of products required has been on the verge of closing for well more than a year.</u>**

<u>This will be the largest single disaster ever to strike the industry now and in the longer term, especially the formal downstream industry.</u>

Just the threat has already done major longer term harm to the confidence of our end-client base locally and abroad.

The ISF opinion on the main reasons why its priorities, action plans and its implementation failed:

i) Main reason: It did not recognise the fact that the industry only services existing demand and have extremely limited influence on creating any demand. **The SMP continued the two-decade old dtic-family's fixation on upstream steelmaking instead of first focusing on the demand placed on downstream manufacturing where 90% + of employment occur.**

ii) The minute SA industry in a very mature major global industry can only be a follower, not an innovator.

iii) Except for the PMO budget, there appears to have been no further budget. (The two specific proposals requested from the ISF on "1 million tonnes p.a. more exports in 3-years" and "Implementing SA Inc." had to be ignored due to lack of budget).

iv) The decision of the dtic to sell and/or support the sale of the three major local mills to foreign competitors two decades ago irrevocably entered the industry into the real global steel world. Wishing to re-introduce the perceived golden old days can only remain a dream.

The resulting feud between the dtic family and AMSA on an alleged "development pricing agreement" since about 2005 has done excessive harm to the total industry and lasts until today. As long as the dtic family believes it is their responsibility to **"create competition for a monopolistic AMSA",** the industry will not progress.

v) The global distortion caused by the aggressive and successful low selling price policies of the East (regardless of cost) coupled with strong China (Inc.) policies towards Africa, mostly led by government owned companies, grew substantially further since 2019; a moving target!

vi) Lack of implementation of local policies for investment. The main creator of steel demand is fixed capital investment. Whether in mines, infrastructure, or special events such as the World Cup 2010.

vii) The bulk of the expected new demand was based on the implementation in other Government departments and SOEs. It appears that the expected implementations was not agreed with them. The old silo syndrome in our industry appears to continue both in the private and public space.

viii) KEY: The SMP implementation team decided which individuals are the "Champions" of industry and **excluded the downstream industry's** own trade associations and export councils from the decision making Steel Oversight Committee.

When the acute shortage of knowledgeable "workhorses" needed for implementation was much later realised, the shunned industry organisations already lost interest and were not prepared to implement priorities and action plans that in their opinion would not produce positive results.

ISF’s recommendation on future

- Realise we are in a crisis – first stop the rot; the name of the game for the next five years must be survival not growth.
- We need to identify which value-added steel products what we want to realistically manufacture in SA, and what to import from the global industry leaders.
- The SMP attempted to tackle too many issues without the required resources, including budget. The SMP to first tackle a few critical issues for survival. (The dtic can still continue with the many other initiatives but not as part of the SMP).
- The ISF is proposing only the following four critical problem areas to be addressed to ensure survival:

ISF's recommendations on future: accept we need to move to survival mode

Problem 1: The expected demand to be created by other governmental departments and SOE's did not realise. Due to limited budgets these departments and SOEs understandably also tend to prefer the lower import price offers of finished products.

Proposed solution: The dtic must tirelessly work (in conjunction with the relevant private sector industries) on convincing the fiscus, the other government departments and SOE's to develop a system to determine the net effect on the fiscus first rather than let each procure in a silo based on most achievable within its own limited allocated budget.

E.g. PAYE, municipal taxes, company taxes, SASSDA grants, etc. must all be taken into account – calculate the multiplier effects, THAT is the holistic and successful Chinese way!

Problem 2: Everything around us will be sold cheaper to SA from China, not because they are necessarily produced at a lower product cost, but because China have so decided. Based on Economies of Scale and disincentivising investment in other countries, this policy proved to be a huge success for China

The “Band-Aid” costly ad-hoc applications of individual local firms and sub-sectors for short-term relieve is ineffective and most likely do more harm than good in the longer term.

Proposed solution: The dtic’s current extensive tariff review into the steel industry is welcomed and must please be accelerated.

A balanced longer-term tariff regime for both primary and value-added steel products needs be implemented a.s.a.p.

Problem 3: Demand growth in SA is predicted to remain slow in the shorter-term. Unfortunately, the same low-priced primary product exports from China are duplicated in their value-added export supply and China (Inc.) policies.

Proposed solution: The only real opportunity is to service more demand in other countries. Create a private sector export development fund to provide export rebates to ALL steel-based exports regardless of the source of the primary steel. To be funded by a 1% levy/surcharge on ALL Chapter 72 local steelmaking as well as steel imports. (SAISI published an excellent and well laid out draft proposal for creating such a fund).

Support for both overland and blue-water value-added exports to be provided.

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Most local mills are willing to contribute as long as the primary steel importers also contribute. Similar to the growing implementation in other African countries, the Government must introduce the “steel development surcharge” on all primary steel imports.

(A similar export support fund operated until about 2015 based on a fixed levy per tonne on SA steelmaking and was administrated by SAISI.)

At least R 15 million of this fund to be used for private sector generic export promotion and marketing. E.g. the excellent previous focused dtic EMIA support for National Pavilions, Missions and Exhibitions for the various sectors practically stopped due to lack of budget. Öut-of-sight, out-of-mind.

<u>Problem 4: The critical elephant in the room – AMSA Long Products imminent closure</u>

<u>THIS IS THE BIGGEST SINGLE MESS EVER CREATED IN OUR INDUSTRY!</u>

The extensive formal downstream industries, via their seventeen (17) trade associations and leading employers association serving the high quality and often safety-critical end-clients locally and abroad gathered in January 2024 at a Crisis Summit.

They then bypassed the dtic and its Minister, and appealed directly to the Ministers of the Economic Sectors, Employment and Infrastructure Development (ESEID) Cluster and AMSA Board to do everything possible to avoid the closure. as it will be devastating to the formal industry.

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E.g., they predicted that due to the domino effect the eventual job losses directly linked to the closure will eventually exceed 100 000.

They advised that the AMSA Long Products Division is the only local producer that can supply their combined of quality, quantity and product range for the foreseeable future.

The appealing intermediate and downstream industries, responsible for over 90% of formal employment in the steel intensive industries were:

ARIA : Africa Rail Industry Association

HDGASA : Hot Dip Galvanising Association of SA

ISF : International Steel Fabricators of SA

Manufacturing Circle

MEMSA : Mining Equipment Manufacturers Association

NAACAM : National Association of Automotive Component Manufacturers & Allied Manufacturers

NAAMSA : Automotive Business Council

POLASA : Power Operations & Leadership Association

RSA Clusters

SAAMDEC: SA Aerospace, Maritime and Defense Export Council

SACEEC : SA Capital Equipment Export Council
SAEEC : SA Electro-Technical Export Council
SAFMA : SA Fastener Manufacturers Association
SAMCRA : SA Metal Cladding and Roofing Association
SARCEA : SA Reinforcing and Concrete Engineers Association
SAWA : Wire Association of SA
SEIFSA : Steel and Engineering Industries Federation
SAISC : SA Institute of Steel Construction

AMSA itself maintains the solution to their woes lie in low local demand and in the hands of government.

They specifically advised that they do not want bail-outs and subsidies like enjoyed by their local competitors, only an equal playing field.

<u>The dtic-family specifically is responsible of creating the unequal playing field with the vast forced subsidy to AMSA's competitors (allegedly R50 billion plus since 2013) and secondly by investing a vast amount (allegedly R 14 billion) via the IDC to create more competitors for AMSA.</u>

It was mentioned on 6 May that a balance between the iron-ore and scrap-based must be found. This balance existed for 99 years since 1914 until a Ministerial Directive of 2013 totally destroyed the balance. Worldwide the free market balances prices as only 30% can be made as scrap become available.

Problem 4: The critical elephant in the room (cont.)

Proposed solution: It is our submission that here is no satisfactory solution to propose. A decision needs be urgently taken that will cause the least extensive damage in the longer term. Whatever the decision, the net effect will result in damage measured in tens of Rand billions for potentially AMSA, the Mini Mills and/or the Downstream industry.

It is our opinion that the dtic family itself is far too compromised to make this extremely critical but unpopular decision, whatever it is going to be.

Recommendation: The wider Government must urgently consult **with independent foreign steel industry experts** on markets, technologies and trends, not local general economists, general researchers, international accounting firms, etc.

Problem 4: The critical elephant in the room (cont.) NOTES

The question now is who to be believed, who to be consulted, who should take the final decision?

Only one thing is agreed between AMSA and the Mini mills: there is not space for all the capacity in for the foreseeable future.

But what is abundantly clear is that Billions of Rands and thousands of jobs **WILL** be lost whatever the decision.

Problem 4: The critical elephant in the room (cont.) NOTES

Why it is the populist opinion of many, especially people not from the steel industry, that new owners of the AMSA Long Product mills will be able to be profitable given the exact same external circumstances, is not explained.

The populist opinion that AMSA is using redundant technologies and the mini mills not is incorrect. 70% of the world's steel today is made the AMSA way. All three technologies in use in South Africa by AMSA and the Mini Mills have been patented more than 100 years ago!

Economical environmentally-friendly "green steelmaking" is years and years away.

It is a fallacy that SA is "greener" if it rather ships its coal and iron ore to other countries for steelmaking there; **that is what CBAM is about.**

Government has indirectly and directly played a major role in making AMSA Long Products "inefficient" when compared to foreign mills. Downstream also suffers from most of the same logistics, energy, security, etc. ever increasing costs mentioned by AMSA.

But by forcing extensive subsidies onto the industry "and moving the rent" to AMSA's competitors, further facilitating the mushrooming of mini mills by investing allegedly R14 billion, they have effectively destroyed the designed efficiencies of the AMSA mills!

The End