

The Steel and Metal Fabrication Master Plan lessons learnt and the way forward

Engagement with the Portfolio Committee on
Trade, Industry and Competition

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Context

- SEIFSA is a national employer body representing 1 300 affiliated member companies in the steel and engineering sector who employ in excess of 140 000 employees.
- The SEIFSA membership represents the entire metals value chain from up, middle and down stream and form an integral part of the global and domestic economy.
- The steel and engineering sector constitutes 26% of the manufacturing sector based on output and contributes 3,8% directly to the country's gross domestic product.
- The sector is a crucial supplier of inputs into major sectors such as agriculture, mining, the automotive sector, construction and other manufacturing sub-industries.
- It is generally accepted that this sector represents the bedrock of the South African economy.
- No modern economy that seeks to stretch the bounds of opportunity and wishing to reinvent itself can do so in the absence of a vibrant steel and engineering sector.

The current environment: a pattern of deindustrialization

Production, employment and investment all show deteriorating trends - the reasons, amongst others, chiefly include:

- A lack of policy coordination and complementarity across state departments and in turn the respective instruments deployed by these state organs.
- A lack of demand from both the state and the private sector.
- A structured arrangement which favours offshore rather than local capability.

SEIFSA has been calling for the highest level of intervention, stressing:

- Urgency.
- The country's industrial base is not operating in a business-as-usual scenario and therefore interventions need to be as radical and ambitious as deemed necessary under the circumstances.
- More of the same is likely to produce the same results, with negative consequences for labour, revenue collection and the long-term sustainability of this critical segment of the economy.
- Some sectors are on the brink of no return.

The Steel and Metal Fabrication Master Plan (SMP)

The SMP was launched with the goal of supporting and anchoring the implementation of a re-imagined industry strategy and the Reconstruction and Recovery Plan launched by the President in October 2020.

One of its key interventions was to increase demand – “the continued loss of domestic and export demand has devastated the industry.”

A number of growth measures or goals were introduced:

- Infrastructure drive, localization, export promotion, development of JVs for export promotion, development of industry value chains and reducing the administrative burden of doing business.

In addition, a number of stability measures were also proposed:

- Establishment of a steel industry development fund, promise of government funding, designation under the competition act, dealing with the supply of scrap metal, promise to deal with input costs, improving intelligence and information and capacitating and aligning key institutions.

**SMP inaugurated on 11 June 2021,
with industry stakeholder support
and the direct involvement of
senior industrialists**

SMP: Has it delivered?

The concept of a master plan has considerable merit, especially when it comes to saving a critical strategic industry, but:

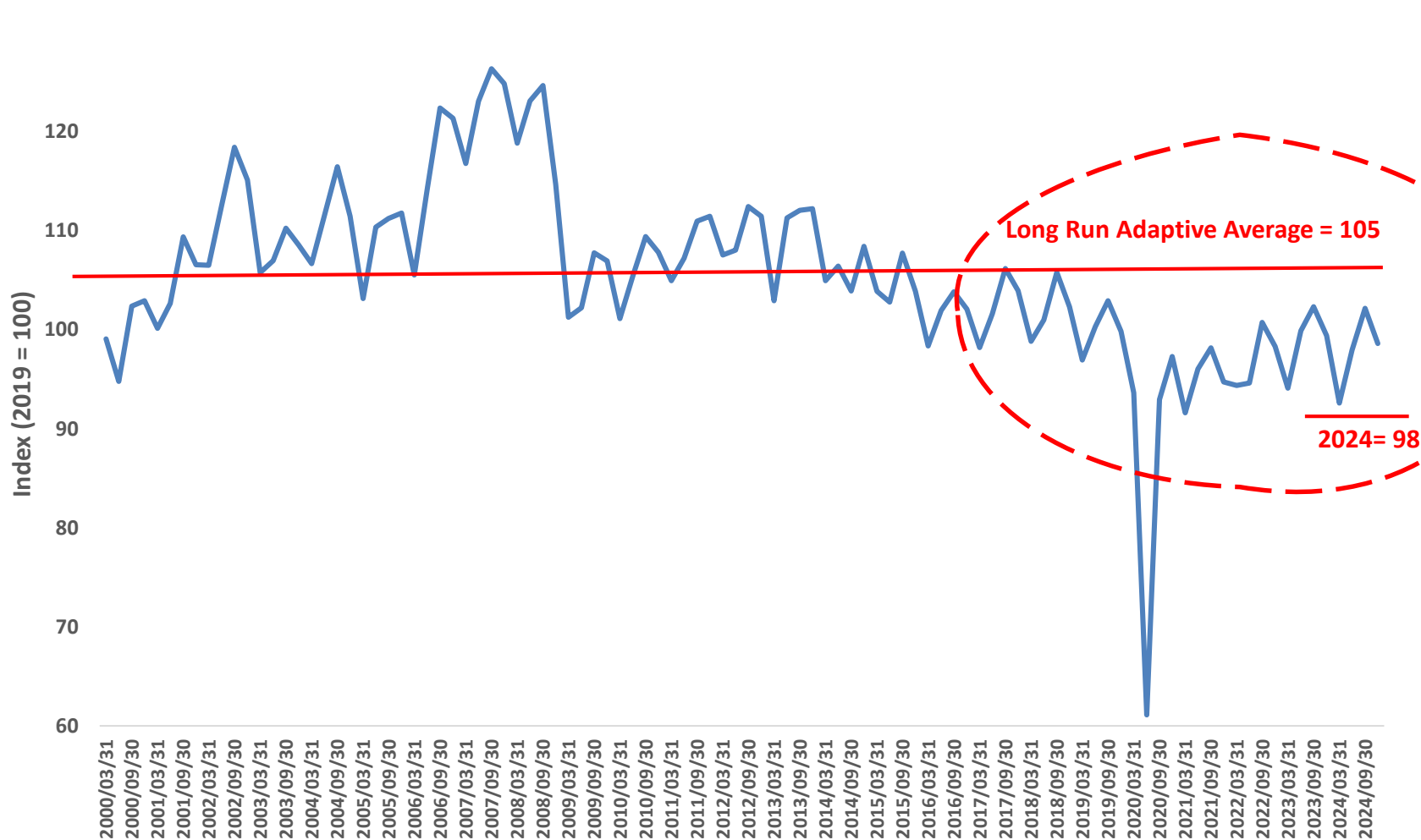
- Need to decisively deal with the perception (or reality) that any reimagined plan must support the entire steel industry, including the substantial down stream sector.
- A key criticism: Too many goals, not enough focus on key issues, too much talk and not enough follow-through on actions e.g., 20 workgroup priorities; 73 deliverables.
- Some successes along the way, but on the whole, senior industrialists become increasingly frustrated with the slow pace of reform and began opting out, leaving non-key decision makers to drive the process.
- Five years later SA's steel industry remains fragmented and shows little sign of recovery.
- Key issues around energy security, rail capacity, port efficiency, logistics, policy alignment, geopolitical tensions and uncertainty and lack of meaningful economic growth over the last decade have all contributed to an industry teetering on the brink of placing SA's already fragile manufacturing sector at even further risk.

Has the SMP collapsed?

The steel sector – and South Africa – urgently needs clarity on policies, consensus on action plans and realized deliverables on the ground in order to instill confidence in the viability of the country to boost competitiveness and attract both local and foreign direct investment.

- The lofty goals set by the SMP to charter a roadmap to reenergize the sector, expand production and demand across that steel fabrication value chain has become increasingly illusive.
- There is a growing sense on the part of industry that the SMP has collapsed.
- The SMP was meant to be a unifying platform, where meaningful and active collaboration took place to arrest the rapid decline currently being experienced.
- The SMP was meant to deliver a comprehensive industrial policy framework, where a total industry perspective would be taken and complementarities across the value chain enhanced.
- Instead, policy tends to be implemented in a fragmented manner, with a short-term view and with pockets of industry being pit against one another.

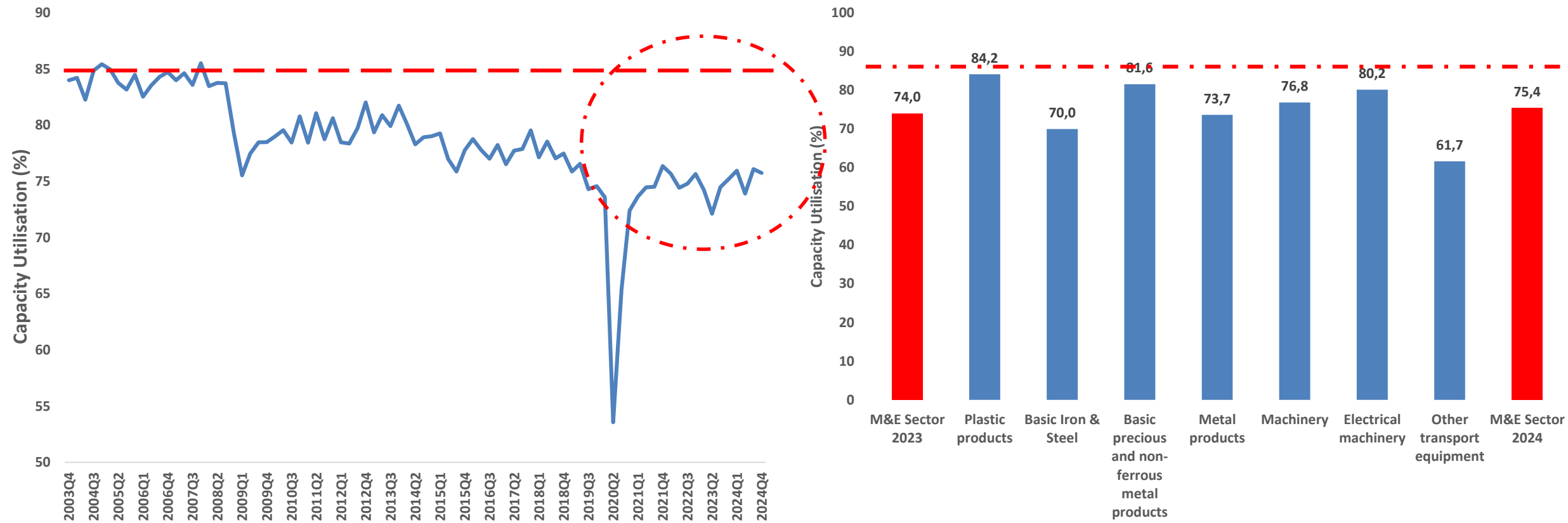
Production: Structurally deteriorating



- In 2024 production declined by -1,4%
- Between 2007/8 and 2024, production decreased -1,3% (CAGR).
- Production has averaged 18% below the 2007/8 peak.
- In 2024, the production index at 98 was 6,7% below the long-run average. The persistent post covid weakness in production risks turning structural.

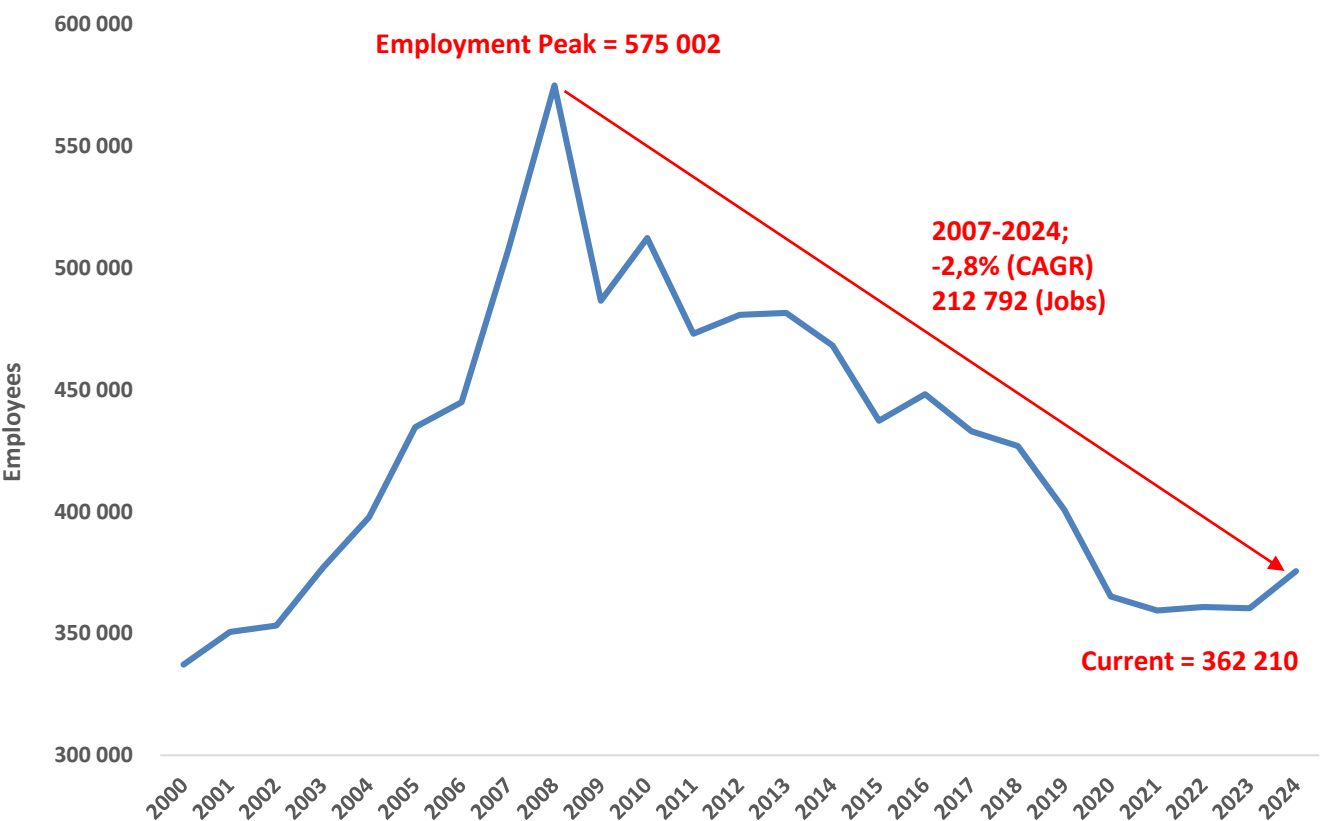
Capacity Utilization: Sub-Optimal

- The post covid persistent deterioration is most notable in the capacity utilisation trends.
- All of the subsectors recorded outcomes below the 85% optimal capacity level.

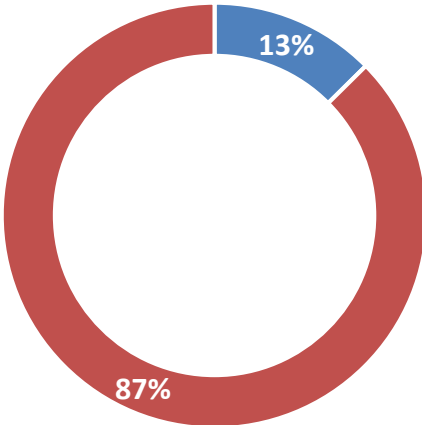


- - - - - = 85% capacity (optimal)

Employment: Socio-economic crisis



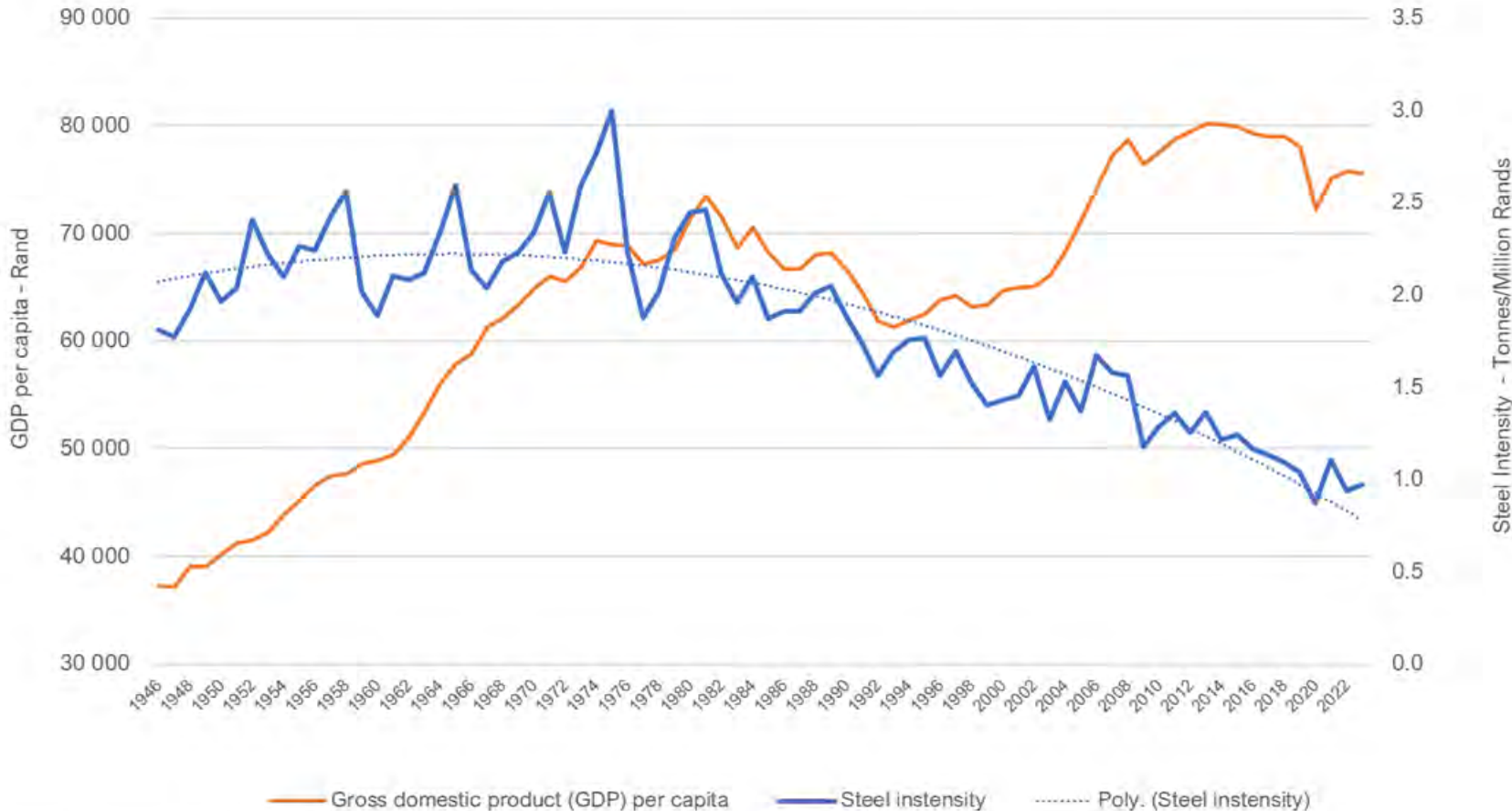
SUB-SECTOR	WEIGHT	EMPLOYEES	2024%
Plastic products	13%	46494	0,8%
Basic iron and steel	6%	22208	-1,0%
Non-ferrous metals	5%	17536	0,7%
Casting of metals	1%	4380	-1,5%
Structural metal products	9%	32918	-0,2%
Fabricated metal products	19%	69451	2,5%
General purpose machinery	14%	52514	0,7%
Special purpose machinery	17%	61736	1,9%
Household appliances	2%	5452	-0,9%
Electrical machinery	12%	44940	-1,4%
Transport equipment	1%	4582	-1,7%
Total	100%	362210	0,7%



Source: Statistics South Africa QES

Steel Intensity: On the decline

SA apparent steel consumption and GDP per capita



- Over the past decade, steel consumption in South Africa has declined by 37% from its peak in 2013 of 92kg to 67kg in 2024.
- While the average use per capita globally has steadily increased, from 150kg in 2001 to about 230kg now;
- Resulting in an unsustainable situation where producers across the board are facing **significantly weakened balance sheets**.

Sources: SA Reserve Bank & SAISI

A fundamental rethink of industrial policy

The Steel Master Plan has not worked and a fundamental rethink of the industrial policy approach is required.

This industrial policy must be premised on the following considerations:

- **Private-Public Partnership** - Private-Public Partnerships provide an ideal and collaborative approach to policy formulation and execution.
- **Incentives not Penalties** - Policy instruments should have at their core an incentive as opposed to a penalty to their formulation.
- **Cost Competitiveness** - Ensure that the costs of doing business in South Africa remain as low as possible.
- **Demand Signalling through Strategic Procurement** - Support clear communication of demand pipelines
- **Evidence-Based Policy** - Advocate for policies supported by comprehensive cost-benefit analyses across society.
- **Strategic Trade Policy** - Move beyond import replacement to a focus on fostering industrial growth and export competitiveness.
- **Constant Policy Review** - Regularly assess existing policies to evaluate their effectiveness, costs and unintended consequences. Where it is determined that a policy is not working, it should be stopped, while successful initiatives should be accelerated.

An industrialization framework

Step 1: Framework and Agreement

- The immediate departure point should be the coming together of stakeholders with a view to working towards developing, what we envisage, namely: **A Strategic Agreement for Impact between Government and The Steel and Engineering Sector.**
- The idea is that this agreement will mainly seek to establish the key core principles that will underpin the framework.
- It is envisaged that **the agreement should have a term to it** and be binding enough to ensure accountability of the parties.
- Moreover, in order to be focused, this collaboration should **set for itself one measurable metric** i.e., the ultimate goal to be pursued, for example: M&E production growth of 4%-5% per year.
- All other goals should be subordinate and become outcomes to this primary goal.

Industrialization framework cont.

Step 2: Structured and Focused Workstreams

In order to keep the structure focused, only three critical workstreams should be considered, namely:

1. Steel Sector Industrial Policy

- Objective should be to create a policy framework that considers the entire sector, balancing competing interests within sub-sectors (mini-mills vs. blast furnaces) and across value chains (up and downstream).
- This policy should set for itself a single vision and target and then all instruments should be designed to support that goal, for example, an X% increase in production.

2. Demand Creation

- To stimulate demand and drive industrial growth, this workstream should support the creation of catalytic projects, mobilising funding and fostering industry collaboration. This initiative aims to:
 - establish a platform for project presentation and scoping on a solicited and unsolicited basis;
 - feasibility and financial closure preparation; and
 - facilitate the formation of Special Purpose Vehicles (SPVs) to manage project execution under a strategic procurement framework.

Industrialization framework cont.

3. Financing

Securing sustainable funding mechanisms is crucial for industrialisation.

Through this pillar, the intension should be to:

- explore diverse funding options and structured financial instruments for infrastructure investment; and
- support public-private partnerships to funding of projects.

Closing comments

SEIFSA is committed to playing a constructive role in developing, advocating and lobbying for policies that accelerate inclusive growth, with a strong emphasis on job creation.

Industrialization initiatives must be evidence based, transformative and designed to maximize economic benefits while addressing structural and socio-economic challenges.

Initiatives must be guided by the following principles:

- The need for action is urgent.
- More of the same is likely to produce the same result, with negative consequences for labour, revenue collection and the long-term sustainability of the steel and engineering sector.
- While the historic interventions into this sector were noble, they have not delivered the desired outcomes.
- Government as the ultimate custodian of industrial policy needs to agree on the need to rethink the way forward.
- In this realisation and in the formulation of the way forward, the private sector must be brought to the table to co-craft a new vision.

Finally

Steel forms the foundation of any modern economy; and is essential to every single industry sector.

From a broader pan-African perspective, without a healthy local steel industry, SA will not be able to integrate itself or the rest of the continent.

The steel sector – and SA – urgently needs policies to instill confidence in the viability of the country to boost competitiveness and attract foreign direct investment.

This will translate into projects that will stimulate the consumption of steel in all sectors.

We trust the government will take prompt, firm steps to implement the measures required and ensure the future sustainable prosperity of the steel and engineering sector– and South Africa – as a whole.

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Thank you

