Davies sounds warning to ArcelorMittal, Sasol

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CAPE TOWN — Trade and Industry Minister Rob Davies has warned two of the country's large monopolies, ArcelorMittal SA and Sasol, that if they do not take steps to provide discounts on their local prices they will face action under the Competition Act and other measures.

The pricing policies of both companies have led to a dispute with the government, which believes they hinder the growth of downstream manufacturing industries.

Sasol Chemical Industries has already been fined R534m by the Competition Tribunal for its excessive pricing of propylene and polypropylene products, a ruling the company is appealing against.

Mr. Davies even went as far as to suggest that ArcelorMittal should cut its steel price 10% and Sasol Chemical Industries should drop its polymer prices 10%-15%.

He also proposed a 15%-20% discount for platinum group metals and stainless steel, to stimulate growth in the autocatalytic convertor industry.

Mr. Davies insisted at a colloquium on beneficiation organised by Parliament's trade and industry committee that the government would not hesitate to embark on Competition Commission investigations if the industry did not co-operate. It would also act to ensure that import parity pricing was no longer practised.

"We are prepared to have an engagement with those companies about changing these practices and if they do (this) we will support them in a number of ways. If they don't, it will be back with the competition authorities. If we are unable to find each other we will have to act.

"I believe it is critical that in a very short space of time we change the policies in such a way that we deliver on a discounted price of mineral products that supports manufacturing."

Mr Davies said discounted prices were critical to the success of the government's beneficiation strategy.

But his reliance on competition policy to force compliance did not find favour with Competition Commission head Tembinkosi Bonakele, who does not believe competition law should be used to address loopholes in the implementation of industrial policy.

Mr Bonakele told MPs last week that using competition policy as a mechanism to reduce prices was a

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“delayed remedy to the market”. The process was slow and litigious, taking years to finalise in some cases.

He said it would be better to use regulations and licence conditions to achieve industrial policy objectives.

Mr Davies said that in addition to relying on the Competition Act, the government had a number of policy instruments it could use to get discounted prices. These included provisions in the Minerals and Petroleum Resources Development Act and its amendments — which still have to be promulgated — that allow the government to prescribe a proportion of minerals deemed strategic for local beneficiation.

Other measures were the Mining Charter, the use of industrial financing, and the possibility of giving companies that worked with the government preferential utility prices.

Mr Davies noted that the government had helped Sasol in the action launched by Brazil against the company’s alleged dumping.

He was adamant that the local steel price should be in the bottom quartile of world steel prices. He dismissed ArcelorMittal’s pleas for the government to consider its fall in profits and the competition it faced from imports.

Last week, ArcelorMittal CEO Paul O’Farrell said there was no way the company could change its import parity pricing policy now as it faced competition from cheap steel imports and electricity constraints.

“We are prepared to start talking about pricing but we need to get the fundamental cost base right,” Mr O’Farrell told MPs. Local demand for steel has been weak.

But Mr Davies retorted that for the past three years ArcelorMittal’s steel prices had on average been 13% higher than the benchmark price (excluding China) proposed by the Department of Trade and Industry.

He said the company had not invested sufficiently in maintenance, resulting in the breakdown of plants.

Steel production had fallen over the past decade and if companies were importing steel, it was because ArcelorMittal had stopped producing some types of steel products.

Sasol Chemical Industries vice-president for strategy and development Mike Biesheuvel told MPs that the company’s prices had fallen in nominal terms by about 8% between 2009 and 2012 following the removal of 10% import duties and the consequent price adjustment.

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