

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

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STEEL MARKET DEVELOPMENTS IN SOUTH AFRICA

Note by South African Iron and Steel Institute

15-16 December 2008, Kuala Lumpur

*This document is background information to Session One of the workshop on Steel and Related Raw Materials.
(Please note that this document is only available in pdf)*

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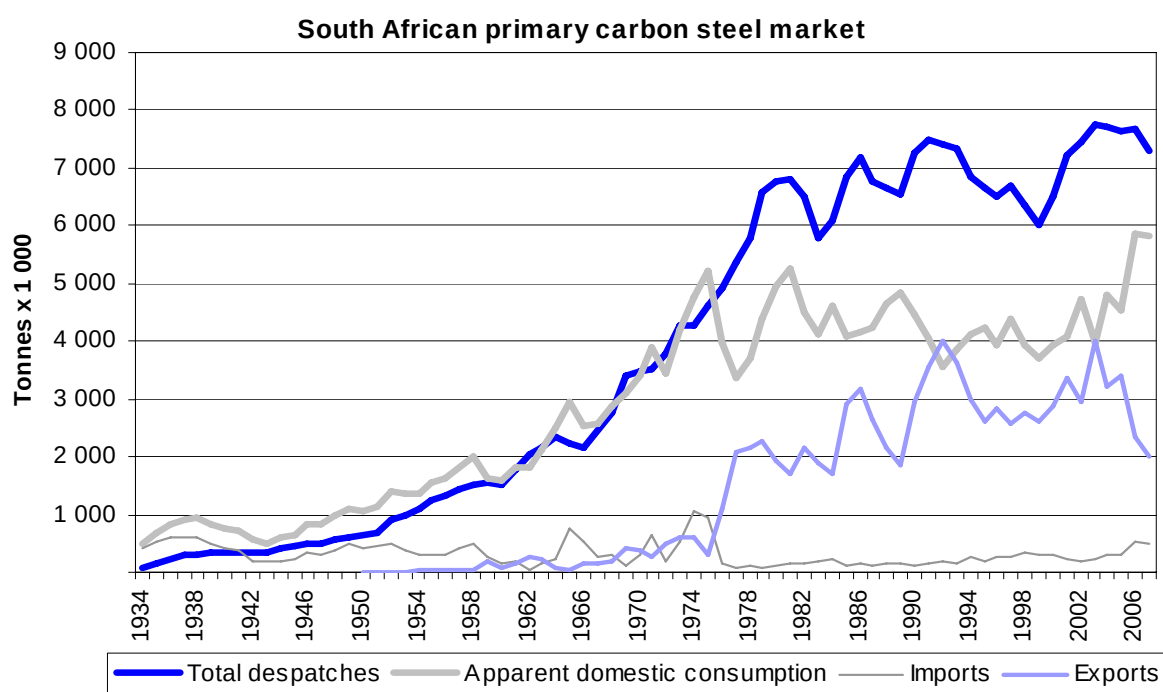
A brief report to the OECD Structural Policy Division of the Directorate for Science Technology and Industry, as input to the Steel and Related Raw Materials workshop of December 2008

Real Domestic Carbon Steel Consumption in South Africa

The consumption trend is illustrated in graph 1 and reflects:

- Significant growth in the Seventies
- Consolidation in the Eighties
- Slight decline in the Nineties at the time of South Africa's political transition
- Growth in the current decade with infrastructure expenditure as the catalyst
- A weakening currency will support value added steel exports in future and steel demand driven by infrastructure development is expected to grow close to 10% per year in the short term.

Graph 1

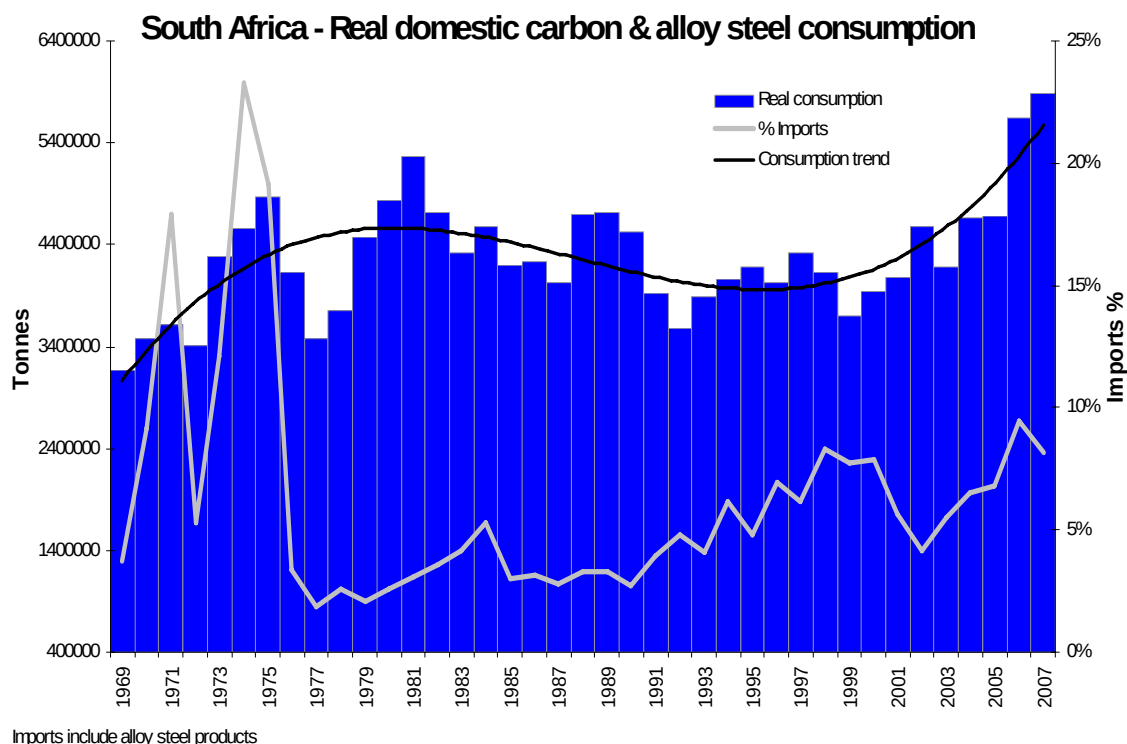


The South African Primary Carbon Steel Market

A longer term perspective with insights into primary producer dispatches as well as exports and imports is illustrated in graph 2.

- Capacity was increased significantly in the first half of the Seventies and dispatches rose to meet domestic consumption with imports declining dramatically. Exports grew in the latter part of the Seventies as the additional primary capacity came on stream. Exports remained a very significant portion of South African dispatches up until the latest increase in domestic consumption in the second half of the current decade. Currently about 85% of domestic carbon steel production is sold into the domestic market.
- Imports currently constitute about 8% of apparent domestic consumption.
- Current published expenditure plans indicate that carbon steel making capacity will reach 12 million tonnes per year by 2010

Graph 2



Stainless Steel Production in South Africa

Columbus Stainless is the only primary producer of stainless steel in South Africa. Since becoming part of the Acerinox Group in 2002, Columbus has embarked on a capital investment to balance and optimize current capacities. Steel making capacity is currently being increased to 1 million tonnes per year and cold rolling capacity to 500 000 tonnes per year. The domestic market for stainless steel products is limited and the industry continues to encourage downstream beneficiation. Currently about 25% of Columbus' production is sold on the domestic market. Columbus' steelmaking is scrap based and its product prices are directly related to volatile international prices of raw materials such as chrome, nickel and molybdenum etc.

Effect of Globalization on the Primary Steel Industry in South Africa

The primary steel industry in South Africa was somewhat insulated from direct global influences for many decades. The largest producer, then state owned Iscor, was privatized at the end of the decade and a phase of rationalization and re-engineering commenced. Today the three largest primary steel producers are majority owned by international groups; ArcelorMittal South Africa (formerly Iscor) by ArcelorMittal, Highveld Steel and Vanadium by Evraz Group SA, and Columbus Stainless by Acerinox SA.

Domestic prices of primary steel follow international trends. The domestic primary steel industry is not protected by import tariffs.

Raw Material Availability

South Africa is an established exporter of iron ore and exported some 30 million tonnes in 2007. At the moment the export of iron ore is constrained by rail capacity but plans are being implemented to increase production and rail capacity to facilitate the export of 44 million tonnes by 2013.

Approximately 13 million tonnes of iron ore is consumed by the domestic primary steel industry. The major primary steel producers are vertically integrated to a degree in respect of iron ore but a significant portion of iron ore is procured on the market. A small amount of ore pellets are imported to sweeten the input mix for iron production at one plant for technical reasons. Iron production in South Africa is predominantly by blast furnace (52%) followed by DRI (24%) and other technologies including Corex (24%). Steel production is equally divided between the oxygen and electric furnace routes.

While South Africa is essentially self sufficient in iron ore for primary steel production it should be noted that although the country has abundant coal reserves, availability of metallurgical coking coal is limited. This resulted in the first commercial exploitation of Corex iron production technology in the Eighties. Iron is currently produced at Saldanha Steel by the Corex process. About 2 million tonnes per year of metallurgical coking coal is imported into South Africa for the production of coke for blast furnace consumption.

Ferrous scrap is vitally important to the primary steel industry as approximately 2 million tonnes is melted each year. Nearly 1 million tonnes per year of ferrous scrap is exported by traders from South Africa. This is of concern to the domestic industry as this trend reduces scrap available for domestic consumption and puts upward pressure on scrap prices. Scrap metal has been identified as valuable local resource by government for the metals industry in general but there is currently no export tariff applicable on scrap metals exports. The non-ferrous industries have been severely constrained in recent years by the export of scrap metal.

Raw Material Requirements

As stated previously, South Africa is largely self-sufficient in respect of the major raw materials required for primary steel production, including ferroalloys. South African producers will not be significantly constrained in future by the effects of the availability and the logistics of the raw material imports. Steel producers will however be directly affected by global price levels and trends.

South African Iron and Steel Institute
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