



ArcelorMittal

# ArcelorMittal South Africa Limited

Comment on Eskom Revenue  
Application for 2018/19

20 November 2017



# Contents

- Introduction
- Background:
  - Steel Industry in South Africa
  - ArcelorMittal South Africa Limited (AMSA)
- Key Messages
- Conclusion

# Introduction

- AMSA is the largest steel producer in South Africa with an annual production capacity of 6.1 million tons.
- AMSA is one of the top 10 customers of Eskom.
- As a country we face a significant challenge to create a growing and sustainable economy.
- The steel industry is critical for infrastructure development and SA has the only steel making capability in Sub Saharan Africa, which if lost, will take a decade to rebuild.
- We therefore require a collaborative approach to these challenges in the interests of SA – and an electricity price path that supports economic growth.

# The South African Steel Industry

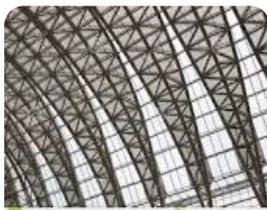
adds ~R26bn in value and represents more than 190 000 jobs



ArcelorMittal

## GDP contribution

Integrated steelmaking contributes 1.1% directly to GDP and 0.4% indirectly



### GDP contribution<sup>1</sup>

2014, ZARbn



*"Our nine point plan to ignite growth and create jobs includes advancing beneficiation or adding value to our mineral wealth"* – **President of South Africa, Jacob Zuma – State of the nation address 2015**

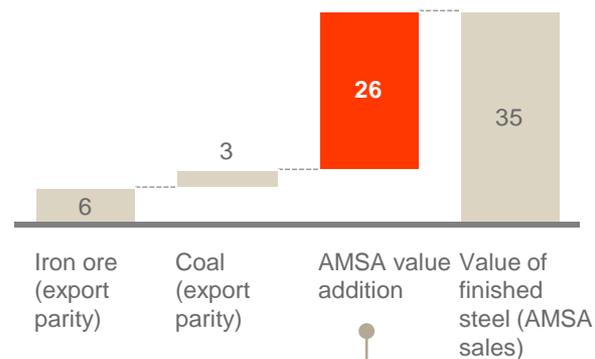
## Value addition through beneficiation

Steel triples the economic value of South Africa's iron ore



### Value added by AMSA steel beneficiation

2014, ZARbn



*"We do not have the luxury of debating whether to beneficiate our mineral wealth. We must harness the collective industrial capabilities of SA firms"* – **Minister of trade and industry, Rob Davies, July 2014**

## Employment

Steel contribution

Over 190 000 jobs are attributable to steel and immediately downstream industries



### Total employment,

2014, number of people



Additional ~100 000 jobs created and induced through suppliers such as transportation of raw materials and steel

1 Based on AMSA figures applied to industry total production

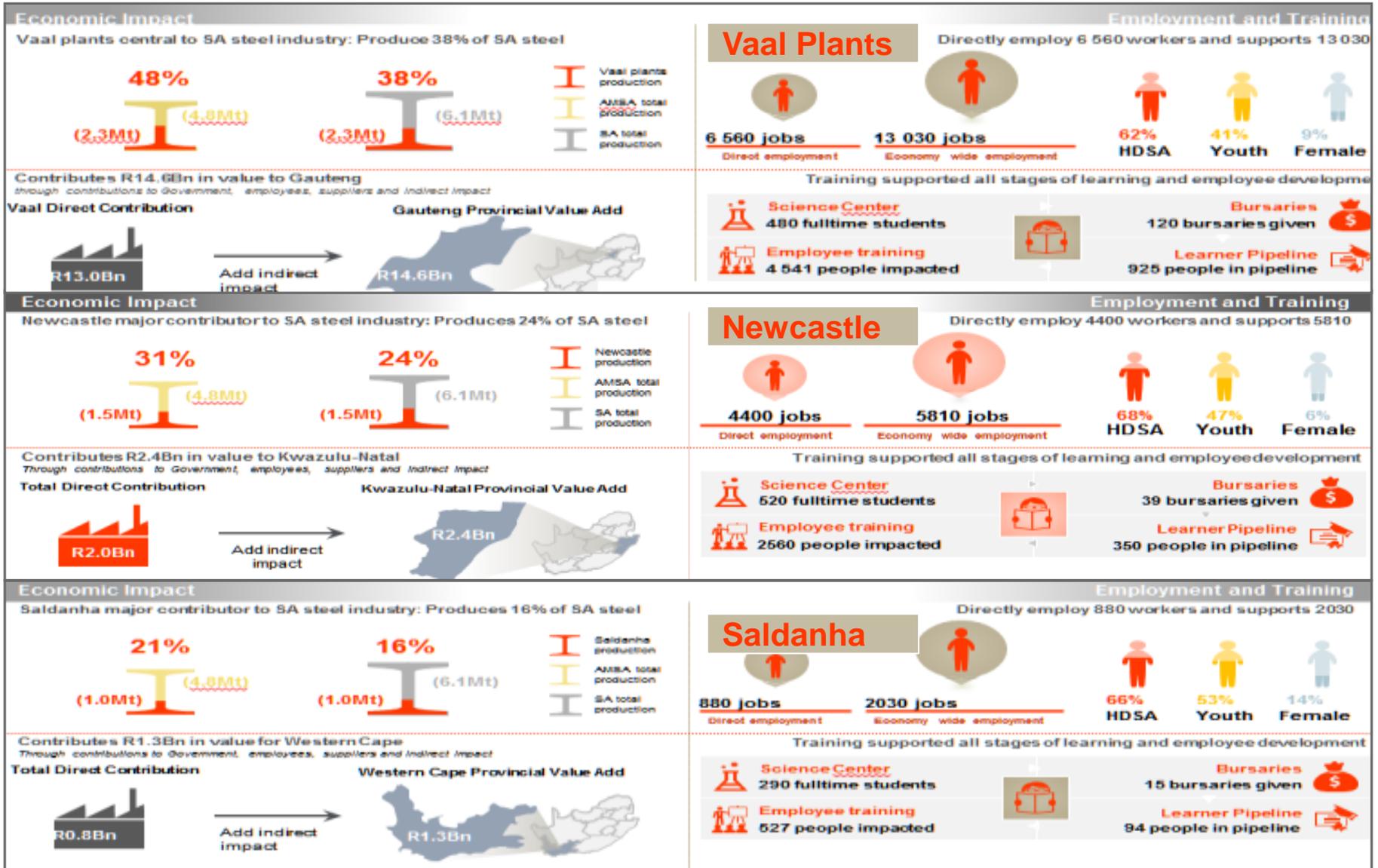
2 Assumes half of Assmang employees in iron ore business, Assmang 2013 employee numbers

Source: Kumba sustainability report, AMSA sustainability report, AMSA Factor report, Assmang sustainability report, StatsSA Quarterly labour force survey, South African Government News Agency

# Regional contribution



ArcelorMittal



# Regional contribution

AMSA indicators as a basis, every 1 000t of steel produced domestically..



Adds R9.2M to South Africa's GDP



Provides 3 jobs directly and 3 jobs indirectly economy wide



Beneficiates R5.2M of value from raw materials consumed



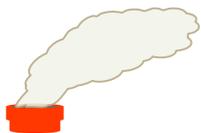
Contributes R0.13M in taxes



Enables domestic procurement spend of R5.3M ...



... of which SME spend of R0.5M (~10% of total)



2,900 tons of CO<sub>2</sub>,  
0.5 tons of dust, 4.6 tons of SO<sub>2</sub> ...



... and abstracts 4.0 million liters of water

# Summary of AMSA Contribution

■ Economic 
 ■ Social 
 ■ Environmental

| Impact Pillars   | Key Positive Highlights  | Potential Improvement Areas   |
|--|--|---|
| <b>1</b> Economic growth engine                              | <ul style="list-style-type: none"> <li>✓ Maintained significant economic contribution (R43Bn, 1.1% of GDP) despite tough financial situation</li> </ul>  | <ul style="list-style-type: none"> <li>• Spending on B-BBEE companies (level 1–4) has remained stagnant at ~ 50% of total since 2013</li> </ul>   |
| <b>2</b> Employer, job creator and skills developer          | <ul style="list-style-type: none"> <li>✓ Continued contribution to job creation: &gt;90,000 jobs directly and indirectly but ~ 10% decrease since 2014</li> <li>✓ Major improvements in spending with black and black-women owned businesses (up 2 × and 5 × respec.)</li> <li>✓ Roll out of ESD program (R17.5M) to benefit SMEs</li> </ul> | <ul style="list-style-type: none"> <li>• Decrease in learner pipeline over last two years from 1,800 in 2013 to 1,300 in 2015—still above AMSA requirements</li> <li>• % of training spend on black employees decreased from 90% (2013) to 71% in 2015</li> </ul> |
| <b>3</b> Impact on local communities                         | <ul style="list-style-type: none"> <li>✓ Focus on local recruitment: 85% of recruits in 2015 were from local communities (up from 68% in 2013)</li> <li>✓ ~ 20% of procurement spend (R5.9Bn) from businesses in local communities</li> </ul>  | <ul style="list-style-type: none"> <li>• CSI spending has decreased by &gt;60% since 2013 from R37M to R12.6M</li> </ul>  |
| <b>4</b> Enabler of S.A. development through supply of steel | <ul style="list-style-type: none"> <li>✓ Creates R24.3Bn in value through beneficiation of iron ore and coal</li> <li>✓ Supplier of key domestic industries—indirectly supports 1.2M jobs and 12% GDP</li> </ul>   |   |
| <b>5</b> Catalyst for change in South Africa                 | <ul style="list-style-type: none"> <li>✓ Improvement in safety (LTIFR) to 0.48 from 0.58 in 2014—better than average for global steel peers</li> <li>✓ Youth employment (&lt; 35 years) at 36% in line with national demographics</li> </ul>   | <ul style="list-style-type: none"> <li>• No improvement in HDSA representation at senior management (stagnant at 30%) since 2013</li> <li>• Female employment dropped from 11% to 10%—below average for benchmarked SA peers</li> </ul>                           |
| <b>6</b> Environmental footprint                             | <ul style="list-style-type: none"> <li>✓ Energy efficiency measures have improved electricity consumption from 779 to 703 kWh/tLS</li> <li>✓ Land under restoration has increased to 618 ha from 290 ha in 2012</li> </ul>   | <ul style="list-style-type: none"> <li>• No significant improvement in emissions (CO<sub>2</sub>e, dust and SO<sub>2</sub>) and water abstractions over last 2 years. Benefits of some projects (e.g., Newcastle ZED) to kick in 2016 onwards</li> </ul>          |

# Key Messages

- Eskom efficiency – this has been addressed by a number of stakeholders.
  - Nersa needs to ensure that only efficient costs are passed onto customers
- The business as usual approach by Eskom is unacceptable
- Implications of 19.9% increase – will exacerbate the trend of lost investment, jobs and economic activity.
- An alternative approach is necessary - SA Inc approach to ensure sustainability.

# Business as usual approach by Eskom Unacceptable

- As already indicated, we have severe economic challenges
- Jobs are being lost and employees have lived without salary increases in certain sectors
- Over and above the issue of efficiency, Eskom should recognize that it is not business as usual and act accordingly
- This would not be the case in a competitive market and Eskom's approach in this regard is unacceptable

- Examples
- How can inflation adjustments just be accepted for Eskom , (e.g. maintenance and labour costs) when the rest of industry has to find ways to deal with these increases
- Eskom return is high in comparison to current business realities – not business as usual
- Expenditure – High weight of employee cost – restructure and limit increases

SA – Press reports NERSA hearings

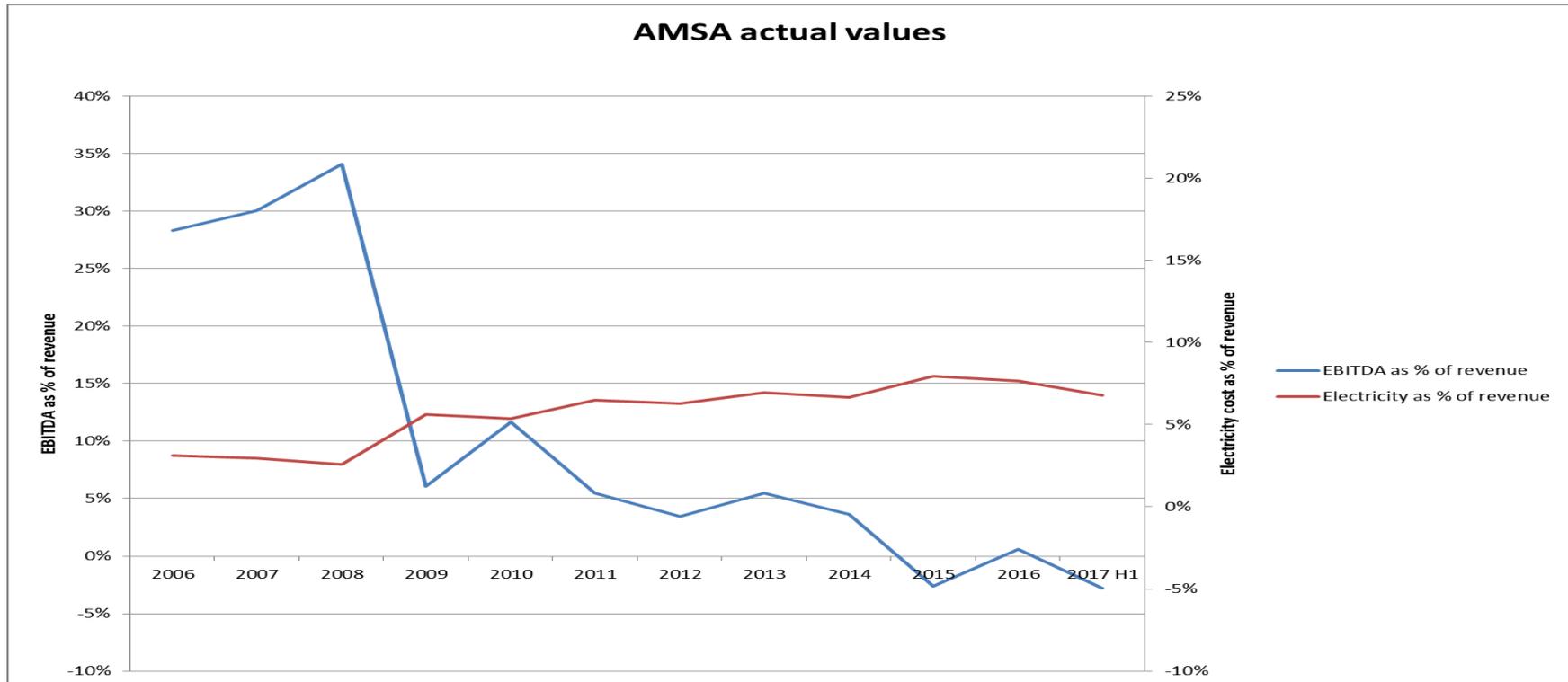
# Implications:

## Influence of increased electricity prices on AMSA viability

- AMSA plants have been cost benchmarked internationally and compare well, but
  - Once electricity (and transport) costs are included we become the most expensive plants.
- The Eskom Single Year Revenue Application of a 19.9% increase is unacceptable and will hasten de-industrialisation
- A 19.9% increase could result in certain AMSA plants being closed down
- AMSA Saldanha Works is an export-focused facility that will be unable to compete competitively in international markets

# Implications:

## Influence of Increased Electricity Prices on ArcelorMittal Viability



- In 2007 AMSA used 2.5% of the ESKOM sales capacity and with actions taken to improve efficiencies up to 2017 dropped to below 1.5% .

### Actions taken since 2011. ( Dropped demand by approximately 140 MW)

- Shut EAF in Vanderbijlpark 2012 ( 90MW)
- Mothball Vereeniging EAF ( 25MW)
- Energy Efficiency projects, i.e VSD drives, Lighting 2015 to present ( 10MW)
- Optimize own generation capacity (15MW)

- In terms of s 2 (a) and (b) of the ERA Nersa is required “*to ensure that the interests and needs of present and future electricity customers and end users are safeguarded and met...*”
- In fulfilling its mandate, and in order to “*facilitate a fair balance*”(s2g) we suggest that, once inefficiencies have been addressed :
  - The price increase trajectory be phased over a longer period
  - The existence of surplus capacity should be used to create short term incentive tariffs for industry that can support growth - as an urgent priority

# Recommendations

- Eskom (like all other SA industries), should actively focus on aggressive cost-cutting and efficiency improvement initiatives – and not continue in “business as usual mode”.
- The Short-Term Incentive Tariff to utilise surplus capacity has to be fast-tracked.
- Implementation of cost-reflective tariffs for energy-intensive industries is an imperative.
- An appropriate price path that supports economic growth is needed.

# Conclusion

- It has been acknowledged by the SA government that national & regional economic growth will need to be realised, to a large extent, through effective industrialisation and infrastructure development.
- Steel, like electricity, is an integral part of infrastructure development - the existence of steel producing capacity & capability can contribute significantly to these objectives.
- As a country we need sustainable solutions for economic growth and we cannot allow short termism to prejudice longer term goals.
- The impact of the electricity price as requested could be severely prejudicial to the steel industry which is in an extremely vulnerable position.



ArcelorMittal

ngiyabonga

Thank you

Enkosi

Ro livhuwa

Ngiyathokoza

Inkomu

Ke a leboga

Ndo livhuwa

Siyabonga

Dankie

Ke a leboha