Press Release

Fluctuating primary pricing threatens the mettle of South Africa's steel industry

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At present, companies in the local steel industry are finding the market very challenging. According to industry sources, much of this can be attributed to the extreme volatility of the primary pricing.

"This level of volatility poses an enormous and very urgent challenge to the entire sector," explains Warne Rippon, Executive Director of steel major Allied Steelrode.

These price fluctuations result in a knock-on effect which is very hard to contend with.

"If we are experiencing this, then our downstream customers must be even more adversely affected," he remarks.

"What the market desperately needs at this point is a more stable and reality-based pricing system going forward. Quoting customers accurately - even three months ahead - is extremely difficult when you have this level of pricing volatility to contend with," he adds.

Until March 2006, the primary steel producer used import parity pricing – where the price of steel was set based on what it would have cost if the product had been imported – as is common in most global steel markets today.

In March 2006, however, an international 'basket of prices' was introduced, reportedly to enhance transparency in the pricing system and allow for the introduction of a major rebate system. This 'pricing basket' was calculated by taking an average of domestic mill prices (excluding freight), for steel in China, Germany, Russia and the US.

However, the bottom line is that for Allied Steelrode and its downstream customers the effect of price fluctuations is potentially severe. "Unfortunately, if there is not some rationalisation of pricing levels, we – along with many other companies in the industry – will be forced to import more of our steel requirements," says Rippon reluctantly.

"At Allied Steelrode, an unwavering dedication to customer service and quality, and the loyalty of our valued customers, is the reason that we have still flourished in what is actually a very difficult market.

These key elements, combined with our adherence to a bold strategy of making substantial investments in technology, in order to create value-driven demand, and to position ourselves for market recovery – such as the purchase of our first and second stretcher levellers – has ensured our continued success," Rippon explains.

"However, when it comes to the current pricing situation – and in line with our dedicated customer focus – we have to look at it from our customers' point of view. Similarly to our being forced to consider increasing imports instead of buying steel locally - if these fluctuations reflect in our pricing in turn - then why should customers buy locally?" he asks.

"An unstable pricing dispensation is therefore having a pervasively negative effect, and is going to drive the whole industry in the wrong direction."

"As pointed out above, due to the current worsening volatility and unpredictability of the prices of steel from the local raw steel mill, industry is not looking to purchase locally, but are looking to import more. According to figures from Customs and Excise, there has been a steep increase of steel since 2010, when imports of primary carbon and alloy steel products totalled 662.6 thousand tons. Currently, some 965.6 thousand tons were imported in 2017.

What tends to exacerbate the situation is that there is very little in the way of downstream price protection and volume metrics in the current steel pricing equation," he adds, explaining that irrespective of the volumes of steel purchased – for example 25 or 800 coils at a time – the price remains the same – with no discounts or customer loyalty programme in place - so industry is effectively being de-incentivised.

"In spite of the recent political uncertainty and the weak economy, we therefore urgently need to have a new steel industry pricing dispensation," continues Rippon.

"Our new president has said all the right things in the recent state of the nation address – with the result that national sentiment and our foreign exchange has improved. However ultimately, what is going to make the crucial difference for the steel industry is a resolution to the current steel price instability.

"In terms of the imports, local steel companies would rather not wait for their supplies to come over the water, and have to manage the attendant logistical challenges accordingly. On the other hand, Chinese and European-sourced steel performs and competes with local steel exceptionally well - both financially and in terms of quality.

In our opinion, locally produced steel is not meeting industry's requirements from either a pricing or a quality point of view – something that is critically affecting the local steel sector as a whole," he comments.

Rippon also raises the point that many major decisions about the South African steel sector are made overseas: "These stakeholders are removed from the reality of doing business locally, and also do not have the interests of the local steel industry at heart."

Rippon furthermore points out that pricing protection seems to only be between the primary producer and the government, and does not extend to protect or assist the downstream industry.

"The current predicament that the South African steel industry is in – caused by this pricing issue - ironically goes against the whole steel industry value-adding product paradigm – not to mention the 'proudly South African' manufacturing initiative.

"Ultimately this pricing issue is not encouraging - nor indeed fostering - local steel sector growth. If the local industry ultimately flounders as a result of the pricing volatility and South African manufacturers cannot produce locally, then they cannot successfully export either - and the economy as a whole loses out," he concludes.

Ends

(929 words)

Note to Editors

About Allied Steelrode

Allied Steelrode was founded through a merger of Allied Chemical and Steel Pty Ltd and Steelrode Pty in 2011. The company has grown to be a leading independent steel supplier and processor, which supplies high-volume merchants and end-users with bulk coils, slit strip, flat steel, steel pressings, standard sheets and the entire structural steel portfolio of products.

To differentiate the company while adding value to customer processes and maintaining consistent growth, Allied Steelrode has systematically invested in the most advanced steel processing equipment such as a tube laser and a dedicated stretcher leveller facility for upgrading steel sheet.

Quality improvement, consistency and reliability of supply and customer service excellence are key drivers for this Alrode-based company. Hand-in-hand with this is a dedication to the highest levels of efficiency.

Allied Steelrode is ISO 9001:2015 certified.

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