ArcelorMittal

16 September 2019

Ports regulator of South Africa

22 Dorothy Nyembe street

Durban

4001

Dear Ms Atiyah Bhabha

RE: Comments on cargo dues tariffs for 2020/2021 as per website Port Regulator

ArcelorMittal South Africa ("**ArcelorMittal**") has noted that the TNPA has requested increases of 4.8% for break bulk and 7.4% for coal. These increases will have an impact on our competitive ability to export finished steel products and import raw materials. These increase further reduces our cost competitiveness against major importing nations such as China.

Logistics and associated cost are significant representing ~16% of ArcelorMittal's total cost structure.

These proposed above-inflation increases together with others from state owned enterprises put pressure on local manufacturing to sustain production levels and maintain job, let alone create,new jobs.

In 2019, the global steel industry is facing extremely challenging market conditions as a result of weaker international steel prices, increases in primary raw material costs and lower demand.

Locally, the South African steel industry continues to face significant challenges. The domestic economy has remained close to recessionary levels as investment and infrastructure spending in the country remained subdued.

Numerous South Africa steel businesses have announced re-organisations and liquidations (the latest announcement having occurred in the last week, affecting downstream steel tube-maker, Robor) placing further pressure on an already dire unemployment position for South Africa.

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Reg. No. 1989/002164/06

As noted below, ArcelorMittal has announced its own restructuring which will unfortunately have a detrimental impact on jobs in economically-stressed regions in which it operates (notably, but not limited to Emfuleni, Majuba and Saldanha).

In the first quarter of the year, the economy contracted the most in a decade mainly due to the decline in activity in the mining and manufacturing sectors. Business sentiment remains subdued. Apparent steel consumption decreased by a further 2% for the period and is now at 70% of the apparent steel consumption of the first half of 2008 - a 10 year low.

ArcelorMittal's financial results reflected this challenging operating environment, posting a headline loss of R638 million, and a cash outflow of R1.2 billion.

Steel imports for the six months to June 2019 were 18% higher with flat product imports increasing by 23%. These increases consist mainly of hot rolled coils imported from China, Russia and Taiwan. Imports once again constitute 20% of South Africa's apparent steel consumption compared to 17% in 2018.

ArcelorMittal's strategic imperative of improving its cost competitiveness against, in particular highly subsidised China-sourced steel, is being severely hampered by structural disadvantages associated with unaffordable electricity, port and rail tariffs.

Increases in the electricity, port and rail tariffs over the past number of years have made ArcelorMittal uncompetitive locally and internationally.

Despite significant actions to mitigate the impact of these unaffordable increases, for the first half of this year, the increases added a further R168 million of additional costs – this will be significantly higher in the second half of the financial year.

Reduction of ArcelorMittal's carbon footprint is a key imperative for the group. Timing, however, of the introduction of carbon tax effective 1 June 2019, from which imported steel is exempted, will place further financial pressure on the business.

As part of its strategy to reduce its cost structure by at least US$50 per tonne, ArcelorMittal's business transformation office has embarked on several initiatives to improve efficiencies and address expenditure within its control. The process is yielding results but takes time for the full benefits to realise. Constant tariff pressures, however, risk the continued viability of its current operations and consequently are under constant review at present.

More significant and undesirable measures have become necessary in the battle to keep the company sustainable in the context of uncontrollable regulated tariffs. These actions are necessary to address, inter alia, unaffordable and uncompetitive electricity, rail and port tariffs.

ArcelorMittal South Africa
Corporate Office

ArcelorMittal has announced a restructuring, which will result in the loss of at least 2 000 positions or just less than 20% of its workforce.

ArcelorMittal continues to engage major stakeholders at the highest level in order to mitigate regulated tariff increases.

In the above context, ArcelorMittal proposes a 10% rate reduction be considered against a 2018 cost base, and that a structural programme be introduced to reduce this cost by a further 20% over the successive three years to stimulate the local market and promote exports.

Protection and stimulation of local manufacturing will not only support ArcelorMittal, it will help turn around the ailing South African manufacturing sector. This will preserve jobs.

We would be pleased to meet with you to further discuss the specifics of our proposal.

Yours faithfully

Sakhile Sgudu

Group Manager Logistics

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