Struggling metal sector mum on details

By Mark Allix

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Amid paroxysms in the South African steel industry, Afrox said last week that it had reached agreement with ArcelorMittal SA regarding the early termination of a gas supply contract dispute. This had resulted in a full and final settlement of all legal proceedings between the parties.

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But that is about as much as either party will acknowledge, apart from bland statements on Sens last week.

Under the agreement, SA's largest steel producer settled a claim of R165m by Afrox in a number of tranches, excluding value-added tax. The dispute goes back as far as 1996, for the reported provision of oxygen and nitrogen to the end of 2012, and argon until end 2019.

It has not been the only big gas supply dispute in town. Shuttered Evraz Highveld Steel and Vanadium and French gas giant Air Liquide are still at loggerheads over a 20-year contract. But like Afrox and ArcelorMittal SA, parties to the dispute are tight-lipped over what Air Liquide claims are damages of at least R1.4bn.

Evraz Highveld joint business rescue practitioner Piers Marsden says only that the French group has not yet responded to an application to cancel the contract after the Russian-backed steel maker closed down in mid-2015.

"Our view is that it is a ridiculous number," he says, adding that damages are limited in terms of the agreement between Afrox and ArcelorMittal SA.

It has been a rough old time for the country's metals industries as global commodities markets have experienced a second rout after falling off a cliff from October 2008.

Many ferrochrome smelters remain shut in SA for lack of demand and horrific Eskom energy tariffs. Tata Steel KZN (KwaZulu-Natal), which was built in Richards Bay from 2006 to provide high-quality ferrochrome for stainless steel production in Asia, Europe and the US, has also long been shut.

Mumbai-based Tata has been stumbling in international metals markets for many years now. It is difficult for SA's government, in light of all these failures, to blame market capitalism only. Its own interventions, such as buying steel maker Scaw Metals in Germiston through the Industrial Development Corporation, have not fared much better.

Promises of major infrastructure build and huge spending on train sets and railway infrastructure by the Passenger Rail Agency of SA and Transnet have not seen Scaw sail out of the doldrums.

While it appears that global steel markets are starting to look up, there is no guarantee of a sustainable upturn. The recent bankruptcy of South Korea's Hanjin Shipping company, one of the world's largest fleets, speaks of massive overcapacity in international ship building and minerals commodities trading, both of which affect steel.

SA's Competition Tribunal has approved without conditions a merger between Richards Bay Alloys and Tata Steel KZN, which is still in liquidation. The deal will exclude the name and the environmental liabilities of the Richards Bay facility. Representatives of Richards Bay Alloys told the tribunal at a hearing on November 9 that they wanted to restart operations at Tata Steel KZN as soon as possible. No transaction value has been given.

The tribunal says the acquiring group is a global asset manager that provides financial solutions for the ferroalloy, mining and energy industries.

While there is little excuse for JSE-listed ArcelorMittal SA and Afrox to play hide and seek over their R165m settlement, the Richards Bay Alloys deal is even more opaque.

Like the attempted - and failed - sale by business rescue practitioners of Evraz Highveld to little-known Hong Kong-based International Resources, the saga of the Tata Steel KZN plant is filled with intrigue.

Among various potential bidders, Richards Bay Alloys is controlled by a string of firms stretching from Luxembourg to the Cayman Islands and ultimately to publicly traded US group Carlyle.

But the paucity of information about all such deals points only in one direction - that of the Panama Papers, which saw 11.5-million documents leaked from law firm Mossack Fonseca, detailing financial and attorney-client information of more than 214,000 offshore entities.

Source: Business Day