

Interplay between industrial policy, firm strategy and market power: metals industries in South Africa

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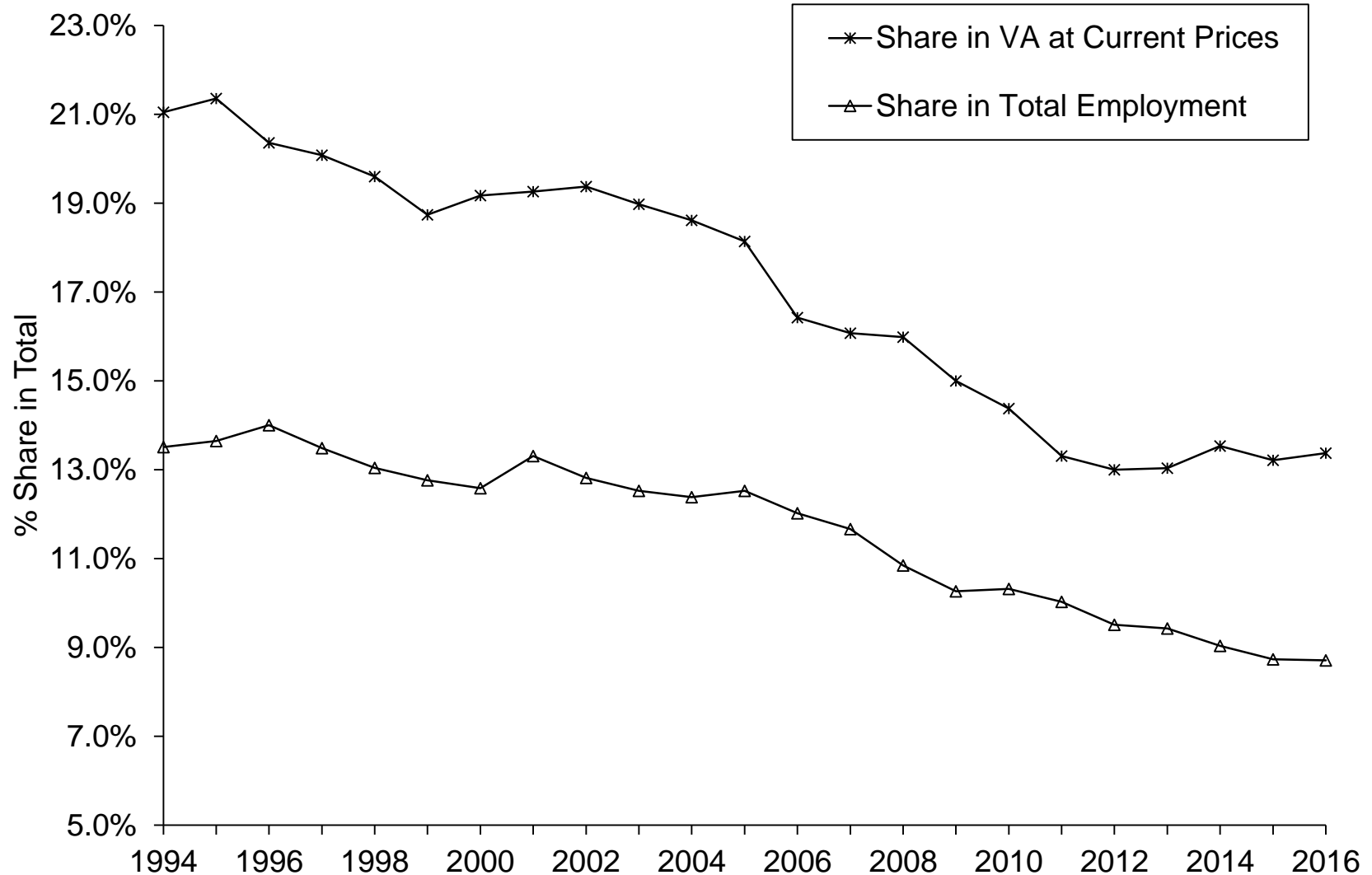


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Deindustrialisation in South Africa

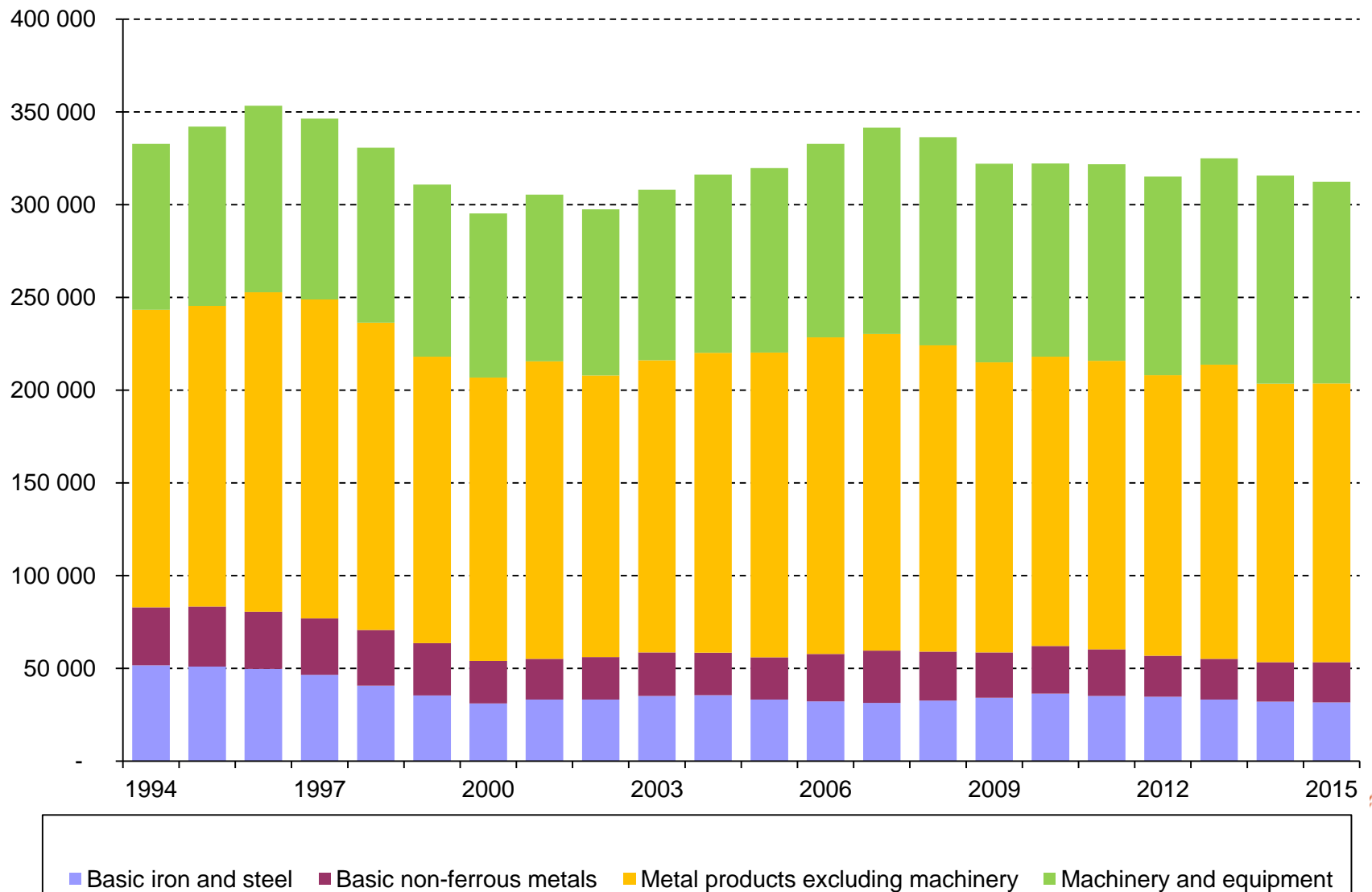
- share of manufacturing in the economy



Metals and machinery annual average output growth

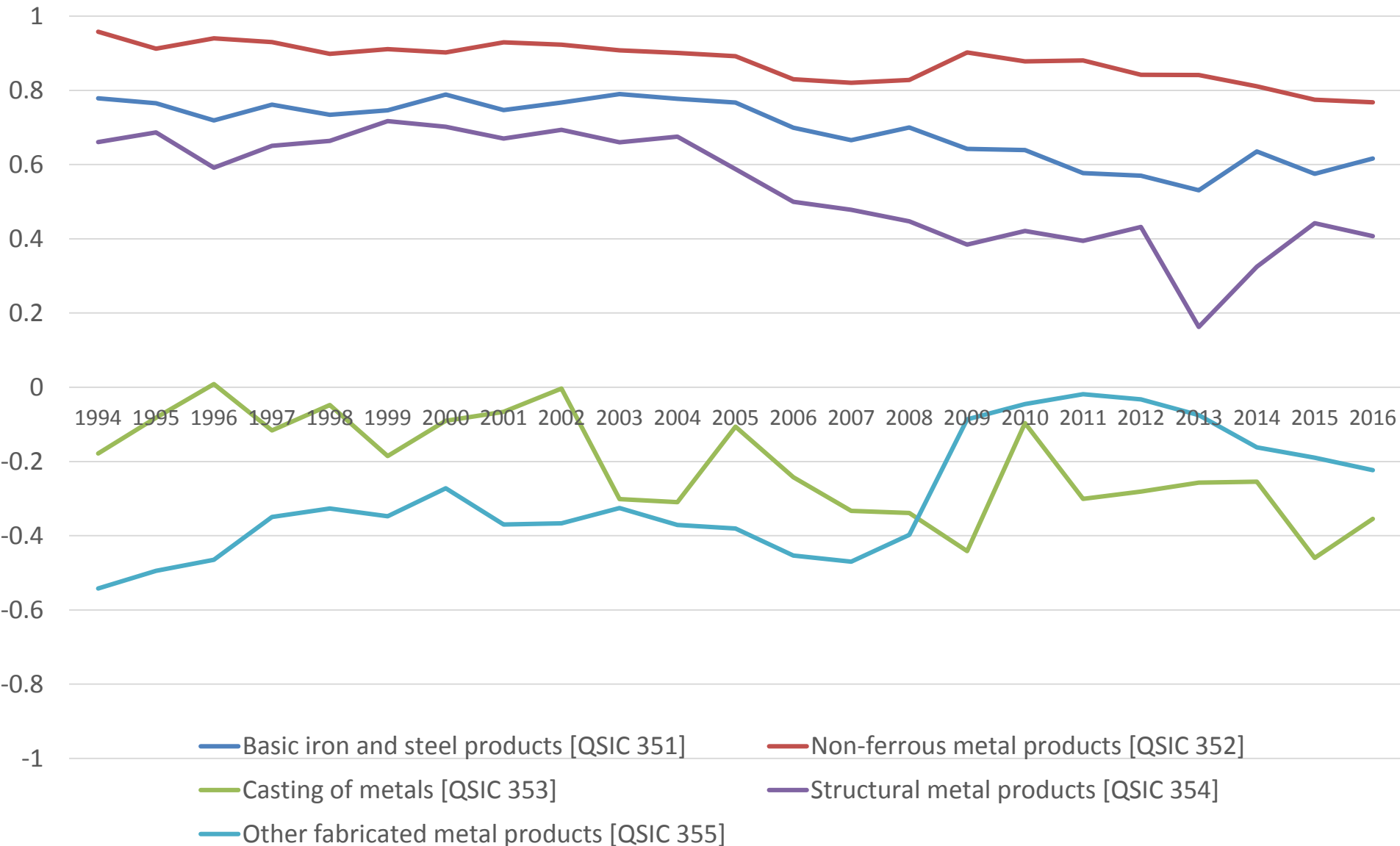
Sector	1994-2004	2004-2014
Manufacturing	6.4%	1.2%
Basic iron and steel	9.7%	2.0%
Basic non-ferrous metals	7.3%	0.1%
Metal products	2.7%	1.5%
Machinery and equipment	3.8%	2.7%

Employment



Revealed comparative advantage

relative net exports: $(X-M)/(X+M)$



Basic iron & steel

- Apartheid legacy and its implications:
 - Highly concentrated and state-supported upstream production (capital-intensive)
 - Weak support for downstream
- Liberalisation, post-apartheid
- Critical review of four main areas of engagement:
 - Privatisation and government support
 - Restructuring of Iscor and bringing in MNC owner
 - Addressing market power and anti-competitive conduct
 - Minerals and energy policy as impacts on steel

Government's role

- Substantial past support for upstream steel industry:
- Internationally competitive with large net exports, historically very low production costs (iron ore, energy)
- BUT: benefits not flowing to downstream industry
- Privatisation at end of 1980s

Liberalisation and restructuring

- Bringing in Mittal as MNC steel co – to upgrade technological capabilities (Business Assistance Agreement)
 - Information advantages on the side of the firm evident in returns to multinational (BAA, price for Saldanha Steel)
- Market power → local prices on flat steel approx. 60% higher than export prices
- Moral suasion and 'developmental steel pricing'

Competition law?

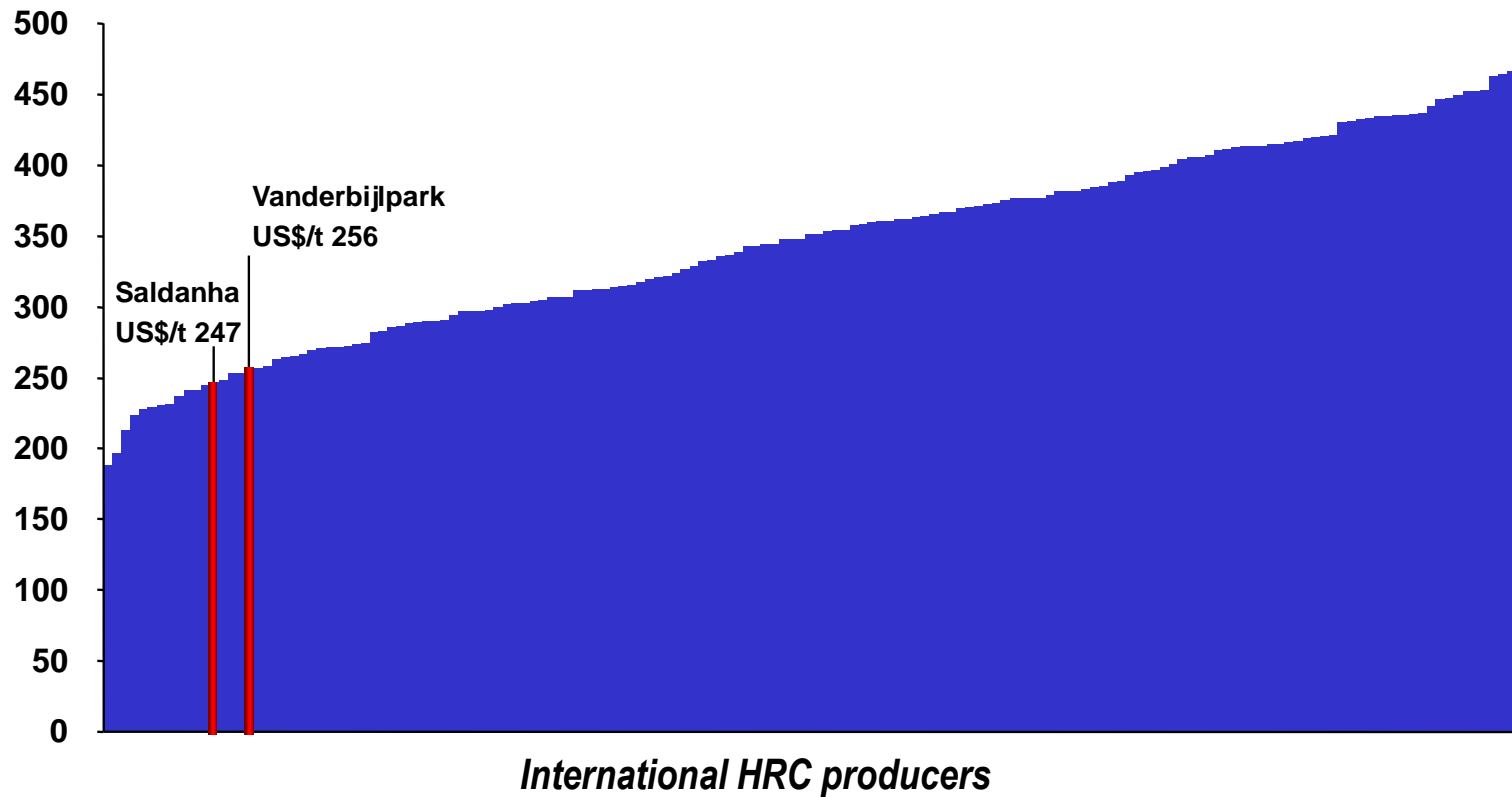
- Law adopted in line with international 'best practice', and independent institutions
- Extensive attention on the steel sector
- Steel excessive pricing case: import parity pricing
- Legal treatment of historic state support and special costs advantages? 'objective' notional long-run competitive equilibrium ignored historical legacy
- Cartels and other restrictive arrangements

Minerals endowment?

- Cheap iron ore, coal not reflected in local steel price
 - Mining licences provide for non-discrimination against local buyers, including of products derived from minerals
- MPRDA: empowered owners allied to major mining companies
- Intense contestation over rents available from access to rights

Operating Cost – HRC

HRC operating cost US\$/t FOB – Q1/04



Source: Metal Bulletin Research

Foundry industry and scrap metal

- Scrap metal main input for foundries → competitiveness of cast components
- Many countries intervene to ensure scrap supply to local industries
- Now evident has been:
 - Local cartel of sellers
 - Local cartel of main buyers (primary steel)
- Implication?
 - Other buyers than primary steel, without bargaining power, getting exploited
- Other possible policies: Export tax

Some conclusions?

- Failure of policy regime to achieve goals
- Failure to effectively engage with power of businesses
- Competition policy?
 - assessment set in narrow legal terrain, 'technical' assessment
- Industrial policy?
 - 'in the small', not changing firms' incentives and conduct
 - favouring large firms in actions, incentives; but by-pass any conditions
- Both could be stronger and used as complementary tools
 - Tests for excessive pricing? Competition law as part of wider regulatory regime
 - Stronger industrial policy levers used
- Little effective support for more labour-intensive, downstream industries - more dispersed and with less lobbying power

Effective industrial policy levers?

Upstream discipline and support?

- Competition
- Energy
- Mining inputs
- Procurement
- Trade policy
- Development finance

→ But all in different departments and institutions!

- Need effective discipline/regulation and/or competition between regional producers

Effective industrial policy levers for downstream industry?

- Finance & support presupposes competitive foundations
- Development finance, technology, procurement
- Potential exists, and substantial trade deficit
- Clusters: bringing together training, finance, infrastructure, testing and R&D facilities
- Regional industrial policy required
 - Cross-country building of capabilities
 - Regional integration and trade driven by industrial policy
 - More effective competition at regional level

Metal products exports, by market

