

THE IRON DILEMMA



The Industrial Development Corporation (IDC), ArcelorMittal, and the Price of Survival

THE DECISION POINT

David Andrew Jarvis, the interim Chief Executive Officer of the Industrial Development Corporation (IDC), stood by the floor-to-ceiling window of his corner office in Sandton. Outside, the Johannesburg skyline was obscured by a heavy summer thunderstorm, a fitting backdrop for the turbulence inside the boardroom. It was Friday, 14 February 2025. While the rest of the city prepared for Valentine's Day celebrations, Jarvis was facing a decision that offered no romance, only a stark, binary choice between financial prudence and economic catastrophe.

On the mahogany conference table behind him lay a credit application file stamped *CONFIDENTIAL – URGENT*. The file, codenamed *Project Furnace*, detailed a request from ArcelorMittal South Africa (AMSA) for a R1.6 billion emergency working capital facility.

The timeline was unforgiving. In late January 2025, AMSA had formally announced the winding down of its Newcastle "Longs" business, the division responsible for producing the long steel used in construction, bridges, and mining infrastructure. The company cited structural unprofitability driven by a collapse in logistics and demand. If the blast furnaces at Newcastle were allowed to cool, they would likely never restart. The closure would trigger the immediate retrenchment of 3 500 direct employees and decimate the economy of the majestic Amajuba District in KwaZulu-Natal.

Jarvis checked his watch, the Board Risk Committee was convening in 2 hours to vote on the proposal. The recommendation on his desk, prepared by Josephine Tsele, his Chief Risk Officer, was heavy with caveats. The IDC's credit team had flagged the transaction as High Risk. AMSA was technically insolvent on a liquidity basis, bleeding cash, and requesting a bridge loan to navigate a crisis caused largely by factors outside its control, specifically the breakdown of the state-owned rail operator, Transnet.

"If we sign this check", his Risk Officer had warned during the preliminary briefing, "we are effectively underwriting the operational failure of another state entity. We are buying six months of time with R1.6 billion of public money, with no guarantee that the rail lines will be fixed before the August 2025 deferral window closes".

But the counter-argument, championed by the IDC's Industrial Planning division, was equally potent. The IDC was not a commercial bank; it was the state's primary engine for development. Its mandate was to be counter-cyclical: to step into the breach when the private sector fled. If the IDC allowed the nation's primary steel capability to collapse, it would be failing its legislative duty to preserve industrial capacity.

Jarvis sat down and opened the file to the *Executive Summary*. The numbers staring back at him were brutal. The "Ask" was clear: R1.6 billion to keep the furnaces running

until August 2025¹. The collateral was a plant that might soon be worth nothing more than scrap metal. The borrower was a giant brought to its knees.

He picked up his pen, hovering over the signature line of the cover memo. The decision he made this weekend would either save a town or impair the IDC's balance sheet for years to come.

THE BORROWER – ARCELORMITTAL'S "DEATH SPIRAL" (2023–2024)

To the IDC Risk Committee, the credit application on the table was not merely a request for funds; it was a biopsy of an industrial organism in critical distress. The 2024 Integrated Report, which served as the primary supporting document for the application, painted a picture of a company where financial gravity had finally taken hold.

The Financial Collapse

The speed of the deterioration was alarming. In 2023, ArcelorMittal South Africa (AMSA) had managed to eke out a thin EBITDA profit of R56 million. By the end of 2024, that margin had been obliterated, replaced by a cavernous EBITDA loss of R1.816 billion.

The income statement was a sea of red ink that signalled a fundamental break in the business model:

- **Revenue Contraction:** Top-line revenue had fallen by 7% to R38.6 billion, driven by a 6% decline in sales volumes and a 4% drop in net realised prices.
- **The Haemorrhage:** The headline loss had ballooned to R5.1 billion, a staggering 170% worsening from the previous year's R1.9 billion loss.
- **Cash Burn:** The company had burned through cash at an operational level, recording a cash outflow of R1.97 billion before working capital movements.

The Solvency Precipice

Most terrifying for a lender was the disintegration of the company's balance sheet. In December 2023, AMSA's Net Asset Value (NAV), the equity buffer that protects creditors, stood at a respectable R7.8 billion. Twelve months later, after absorbing massive losses and impairments, the NAV had collapsed to just R1.96 billion. This represented a 75% destruction of shareholder value in a single year.

Simultaneously, the debt burden had become crushing. Net borrowings surged by 59% to R5.1 billion. The company was effectively funding long-term operational losses with debt, a classic signal of a "death spiral".

¹ For pedagogical clarity, this case compresses two separate IDC funding decisions into a single committee meeting: an IDC board-approved R380 million shareholder loan on 4 February 2025 and an additional R1.683 billion facility approved on 31 March 2025.

The "Chilled Hearth" Disaster

While market conditions were undeniably harsh, the credit paper highlighted a catastrophic operational failure in April 2024 that had crippled the company's flat steel operations in Vanderbijlpark. Water ingress had caused "chilled hearth" conditions, effectively freezing the molten material inside the furnace at both Blast Furnace C and Blast Furnace D simultaneously. The furnaces were offline for three and five weeks respectively.

The cost of this operational paralysis was devastating. Lost production of 209,000 tonnes of steel that were never made. A financial hit as the incident wiped R670 million directly off the EBITDA line. The Longs Burden: The specific focus of the IDC's proposed loan (the Newcastle "Longs" business) was revealed to be the primary source of the infection. The report confirmed that the Longs business alone was responsible for an operational EBITDA drain of R1.668 billion in 2024.

As Jarvis turned the page to the risk analysis, the question hanging around his neck was unavoidable: Was this a temporary liquidity crunch that could be bridged, or was the IDC being asked to bail out a company that was already structurally insolvent absent recapitalisation?

THE MACRO "EXOGENOUS SHOCKS" – THE STATE VS. THE STATE

The central argument of AMSA's CEO, Kobus Verster, was that the company's failure was not due to an inability to make steel, but due to a hostile operating environment created effectively by the State itself. The credit paper highlighted three "exogenous shocks" that constituted a "Triangular Wrong-Way Risk" for the IDC.

A. The Logistics Chokehold (Transnet)

AMSA operates a logistics-heavy business model, relying on rail to move iron ore to its furnaces and finished steel to ports. In 2024, the collapse of Transnet Freight Rail (TFR) service levels became an existential threat.

- **Performance Failure:** TFR missed more than 40% of its delivery targets in 2024.
- **The Cost Penalty:** To keep plants running, AMSA was forced to substitute rail with road transport. While this kept the furnaces fed, it destroyed margins. The company achieved some savings, but the structural inefficiency of moving heavy bulk commodities by truck remained a massive competitive disadvantage.
- **Systemic Risk:** The "Logistics and security of supply" risk was ranked as the number 6 top risk to the enterprise.

B. The Energy Price Spike (Eskom)

Steelmaking is an energy-intensive process. In 2024, Eskom's electricity tariffs rose by 14%. This increase outstripped inflation and stripped R156 million in potential variable cost savings that the company had achieved elsewhere.

For an electric arc furnace operation (which AMSA competes against), electricity is a raw material. For AMSA's integrated plants, it is a massive overhead. The 800% increase in tariffs since 2007 had rendered South African energy-intensive manufacturing globally uncompetitive.

C. The Scrap Metal Distortion (Policy Risk)

Perhaps the most bitter pill for AMSA was the government's own policy regarding scrap metal.

- **The PPS System:** The Price Preference System (PPS) and export duties kept domestic scrap steel prices artificially low to support mini-mills.
- **The Subsidy:** AMSA argued that this policy effectively subsidised its competitors—scrap-based electric arc furnaces—by approximately R8.5 billion per annum.
- **The Distortion:** While AMSA paid market rates for iron ore and benefited it at great cost, its competitors bought artificially cheap scrap. This policy distortion was identified as a primary driver for the unprofitability of the Longs business.

The Risk Dilemma

For the IDC, these factors presented a profound conflict. The IDC (a State-Owned Entity) was being asked to lend money to AMSA to cover losses caused by Transnet and Eskom (State-Owned Entities) and a Department of Trade and Industry policy (State Policy).

If Jarvis signed the deal, he wasn't betting on steel; he was betting on the State's ability to fix its own broken infrastructure. If Transnet did not turnaround, the R1.6 billion loan would simply be burned in diesel costs for trucks, leaving the IDC with a larger claim against a liquidated estate.

THE MACRO "EXOGENOUS SHOCKS" – THE STATE VS. THE STATE

As the IDC Risk Committee scrutinised the root causes of ArcelorMittal's distress, they encountered a profound irony. The borrower's collapse was not primarily driven by competitive failure in the steel market, but by a hostile operating environment created, effectively, by the State itself.

AMSA CEO Kobus Verster had argued extensively that the company was a victim of "exogenous shocks", factors entirely outside of management's control. The credit paper on Jarvis's desk categorised these shocks into a "Triangular Wrong-Way Risk" that placed the IDC in an impossible position: The State (as lender) was being asked

to bail out a private company to cover losses caused by the State (as infrastructure provider).

A. The Logistics Chokehold (Transnet)

The primary artery of the South African steel industry is the rail network connecting the iron ore mines to the Newcastle furnaces, and the furnaces to the ports. In 2024, the collapse of Transnet Freight Rail (TFR) service levels had turned from a chronic headache into an existential threat.

The data presented was damning:

- **Systemic Failure:** TFR had missed over 40% of its contracted delivery targets for the financial year.
- **The Modal Shift:** To keep the blast furnaces from starving, AMSA was forced to resort to road transport. Hundreds of heavy-duty trucks now hauled raw materials and finished steel along the N11 highway.
- **The Cost Penalty:** The cost differential between rail and road was punitive. The report estimated that the "logistics premium" paid for trucking, combined with lost sales due to port congestion, had inflicted an EBITDA penalty of R1.668 billion on the company in 2024.

Essentially, the R1.6 billion loan requested from the IDC was equal to the exact amount AMSA had lost due to Transnet's inefficiencies.

B. The Energy Squeeze (Eskom)

Steelmaking is an energy-intensive process. For the Newcastle Longs business, electricity is a massive fixed cost. In 2024, Eskom's tariff hikes averaged 14%, significantly outstripping consumer inflation.

For AMSA, this was a double blow. Not only did it increase the cash cost of production per tonne, but it also eroded the "variable cost savings" programme the company had aggressively implemented. Management noted that every Rand saved through internal efficiency was immediately swallowed by rising state utility costs. The cumulative effect was that South African steel was becoming globally uncompetitive against imports from jurisdictions with subsidised or stable energy pricing.

C. The Policy Distortion (The Scrap Metal Paradox)

Perhaps the most contentious issue debated by the Committee was the "Price Preference System" (PPS) regarding scrap metal, a policy enforced by the Department of Trade, Industry and Competition (DTIC).

The South African steel market is divided into two camps:

1. **Integrated Mills (AMSA):** Who make steel from iron ore and coal (Primary producers).

2. **Mini-Mills:** Who make steel by melting down scrap metal in electric arc furnaces (Secondary producers).

The PPS policy effectively forced scrap merchants to offer scrap metal to local mini-mills at a steep discount to international prices. AMSA argued that this policy created a massive subsidy estimated at R8.5 billion per annum for their competitors. While mini-mills bought artificially cheap raw materials, AMSA paid market rates for iron ore and logistics.

The Risk Verdict

The implications for the IDC were stark. If Jarvis approved the loan, he would be lending into a structural trap.

The loan could bridge the liquidity gap, but it could not fix the railway lines or lower electricity tariffs. Unless the shareholder (the Government) urgently remediated Transnet and reviewed the scrap metal policy, the "exogenous shocks" would remain. The R1.6 billion would not be an investment in turnaround; it would simply be fuel money for trucks, buying six months of survival before the same crisis repeated itself in August.

THE LENDER – THE IDC'S DUAL MANDATE

David Jarvis turned his attention from the borrower's distress to his own institution's capacity to absorb it. This was the crux of the dilemma. If the IDC were a commercial bank like Standard Bank or FirstRand, the *Project Furnace* file would have been shredded at the first credit committee meeting. Commercial banks operate on a single axis: Risk-Adjusted Return.

But the Industrial Development Corporation (IDC) operates on a dual axis: Financial Sustainability *and* Development Impact.

The Counter-Cyclical Burden

Established in 1940, the IDC's legislative mandate is to drive industrial development. Crucially, its role is defined as counter-cyclical. In theory, this means that when the private sector retreats during an economic downturn, the IDC must advance to prevent de-industrialisation.

The Industrial Planning division had argued this point forcefully in their support memo: *"The private sector has abandoned the steel industry because the returns are too low. That is exactly why the IDC must remain. If we exit now, we are not managing risk; we are abdicating our mandate."*

The Balance Sheet Reality

However, Jarvis knew that a mandate without money was just a slogan. The IDC's 2024 Integrated Report revealed an institution that was itself under significant financial pressure. The "Fortress Balance Sheet" that had historically allowed the IDC to weather storms was showing cracks.

- **Declining Profitability:** Group net profit had fallen from R10.7 billion in the previous year to R7.8 billion in 2024. More worryingly, much of this profit was derived from dividends from mature legacy investments (like Sasol and Kumba), rather than from successful new lending.
- **Asset Quality Deterioration:** The most flashing red light on Jarvis's dashboard was the quality of the loan book. The ratio of Non-Performing Loans (NPLs) stood at 26.3%. Even more alarming, the accumulated Impairment Ratio was 36.4%.
- **Implication:** Effectively, for every R100 the IDC had lent out, R36 was impaired. Adding a R1.6 billion high-risk loan to a book that was already one-third impaired seemed functionally reckless.

The Concentration Trap

The Risk Officer had drawn a sharp circle around the sectoral breakdown of the IDC's exposure. The corporation was not diversified; it was heavily overweight in Mining and Metals, with R34.9 billion already exposed to this volatile sector.

Granting the AMSA facility would deepen this concentration risk. If the global steel price collapsed, or if the Rand strengthened significantly, the IDC would face a simultaneous crisis across its largest asset class.

The "Opportunity Cost" of Survival

The final tension was the trade-off between "saving" and "creating". The IDC's corporate plan targeted the creation of new jobs in future industries: Green Hydrogen, New Energy Vehicles, and Tourism. The Cost of R1.6 billion was a massive deployment of capital, and the alternative, that same R1.6 billion could fund the development of 50 black industrialist startups or a major renewable energy farm.

By approving *Project Furnace*, the Board would be choosing to allocate scarce capital to defend a dying 20th-century industry (carbon-heavy steelmaking) at the expense of investing in 21st-century industries. They would be saving the past by mortgaging the future.

The question Jarvis had to answer was whether the "Strategic Value" of retaining primary steelmaking capability in South Africa was worth the likely financial destruction of R1.6 billion of state capital. Was the IDC a bank, or was it a slush fund for industrial preservation?

THE "LONGS" DILEMMA – A STRANDED ASSET?

David Jarvis's eyes moved to the technical due diligence report on the Newcastle Steelworks. To understand the risk, he had to understand the asset. The ArcelorMittal crisis was not uniform. The company's "Flats" business (making steel sheets for cars and appliances) in Vanderbijlpark was struggling but viable. The existential bleeding was concentrated in the "Longs" business in Newcastle, KwaZulu-Natal.

The Asset

The Newcastle Works is a behemoth of 20th-century industrial engineering. It is an integrated route plant, meaning it takes raw iron ore and cooks it into "long steel"—reinforcing bars (rebar), wire rod, and rail profiles. These are the skeleton keys of a developing economy; you cannot build a dam, a bridge, a skyscraper, or a railway line without them.

The Market Trap

The fundamental problem, the credit analysts noted, was that Newcastle was built for an economy that no longer existed.

- **Design Capacity:** The plant was designed for a South Africa growing at 5% GDP, with a government aggressively rolling out infrastructure.
- **Current Reality:** In 2024, South Africa's Gross Fixed Capital Formation (the measure of infrastructure investment) had collapsed to record lows. The construction sector—Newcastle's primary customer—was in a deepening recession.

The Demand Paradox

The data in the file revealed a terrifying divergence. Domestic steel consumption had fallen by 19% over the last seven years. The "Longs" business was effectively a Stranded Asset, a massive, capital-intensive machine waiting for a construction boom that the government had promised for a decade but never delivered.

The "Ghost" Demand

The IDC's Industrial Planning team argued that closing Newcastle would be suicide because "when the infrastructure rollout starts, we will need the steel."

But the Risk Team's counter-argument was brutal in its logic: *"We are being asked to fund a bridge to nowhere. We are saving the supply of steel (the factory) without any evidence of the demand for steel (the projects). If the government doesn't launch the infrastructure drive immediately, we are just paying R1.6 billion to store inventory that nobody wants to buy."*

The Cost of Obsolescence

Furthermore, the technology at Newcastle was aging. It competed against agile, scrap-based mini-mills that could switch on and off depending on demand. Newcastle's blast furnaces were like ocean liners; they took weeks to turn and cost millions just to keep idle.

Jarvis realised the terrifying truth: The IDC wasn't just fighting bad logistics or high energy costs. They were fighting the market itself. Unless South Africa suddenly started building on a massive scale, the Newcastle plant was structurally obsolete.

THE "WRONG-WAY" RISK CALCULATION

As the meeting moved into the technical risk assessment, the Chief Risk Officer walked the Board through the most sophisticated (and dangerous) aspect of the deal.

The Concept

In advanced banking, "Wrong-Way Risk" is the nightmare scenario where your exposure to a borrower increases exactly when their ability to repay you decreases.

The "Triangular" Trap

The CRO drew a diagram on the whiteboard that chilled the room. It showed a triangle connecting three entities:

1. The Lender: The IDC (State-Owned).
2. The Risk Driver: Transnet & Eskom (State-Owned).
3. The Borrower: AMSA (Private).

"Chairperson," the CRO began, "We need to be clear about what we are doing. We are not lending against the credit risk of ArcelorMittal. We are writing a derivative option on the turnaround of Transnet."

The Mechanism of Failure

- The Loan: The IDC lends R1.6 billion.
- The trigger: If Transnet fixes the rail lines, AMSA saves R200 million a month in logistics costs, returns to profit, and repays the IDC.
- The Trap: If Transnet *fails* to fix the rail lines, AMSA burns the R1.6 billion on expensive trucks, defaults on the loan, and goes into liquidation.

The Sovereign Circularity

The uncomfortable truth was that the IDC (the State's balance sheet) was being asked to insure a private company against the failure of Transnet (the State's operations).

- If Jarvis signed the deal, he was effectively saying: *"I trust the Minister of Transport to fix the trains within six months."*
- If he was wrong, the IDC would lose R1.6 billion—money that would effectively subsidise the inefficiency of another state entity.

The Risk Committee Chair leaned forward. *"So, we are being asked to use the IDC's balance sheet to paper over the cracks in the State's logistics network? If Transnet doesn't perform, we are the ones who take the write-off?"*

The silence in the room confirmed the answer. The IDC was the backstop for a systemic state failure.

THE ALTERNATIVE – LIQUIDATION & THE "GHOST TOWN"

The boardroom was tense as Jarvis moved the discussion from financial theory to human reality. The credit paper contained a section titled *Impact of Rejection*, which detailed the socio-economic fallout if the IDC voted No.

If the R1.6 billion facility was denied, ArcelorMittal had made its intentions clear: The Newcastle Longs Business would be placed into "care and maintenance" immediately, a prelude to permanent closure.

The Human Cost

The direct impact was quantifiable and devastating:

- **Job Losses:** 3 500 permanent employees and full-time contractors would be retrenched. In a country with an unemployment rate hovering near 33%, the chances of these workers finding re-employment in the metals sector were statistically negligible.
- **The Dependency Ratio:** In the Amajuba District, one steelworker's salary typically supports between 5 and 7 dependents. The closure would effectively strip the livelihood from approximately 20 000 people overnight.

The Regional Contagion (The "Ghost Town" Scenario)

The Newcastle Municipality relied on the steelworks for a significant portion of its rates and taxes.

- **The Ripple Effect:** The "downstream" economy of local engineering shops, transport operators, catering companies, and retail stores, would face an immediate demand shock.
- **Social Stability:** The KZN regional manager had flagged a "High Risk" of social unrest. The province was still recovering from the scars of the 2021 civil unrest. Removing the region's economic anchor could ignite a new powder keg.

The Strategic Autonomy Risk

From a national perspective, the closure would fundamentally alter South Africa's industrial sovereignty.

- **Import Dependency:** Without Newcastle, South Africa would become a net importer of long steel. The construction of every school, hospital, and dam would suddenly be pegged to the volatile Rand/Dollar exchange rate and global supply chain availability.
- **The "Price Taker" Problem:** South African construction firms would become "price takers" in the global market, subject to the whims of Chinese and Indian export tariffs.

The Hidden Liability (Environmental)

Finally, the Chief Risk Officer played her last card. *"Chairperson, if we let them liquidate, the problem doesn't just go away. It comes back to the State."*

- **Remediation:** The Newcastle site is a heavy industrial zone with decades of environmental legacy. If AMSA went into liquidation, the "Polluter Pays" principle would fail because the polluter would be bankrupt.
- **The State's Bill:** The legal team estimated that the environmental remediation costs, which would ultimately fall to the Department of Forestry, Fisheries and the Environment, could exceed R2 billion.

The irony was bitter: It might actually cost the State *more* to let the plant close than to keep it open.

THE BOARD VOTE

The presentation was over. The screens in the boardroom went dark, leaving only the sound of the rain against the glass. David Jarvis looked around the table at his Board members.

He had laid out the pieces of the puzzle:

1. **The Financial Case:** A likely write-off. The severely distressed and loss-making, but not balance-sheet insolvent on the disclosed going-concern view, with current assets exceeding current liabilities by R680m and year-end cash/restricted cash of R3.6 billion. The macro environment was hostile, and the "Wrong-Way Risk" was acute.
2. **The Development Case:** A mandatory intervention. Saving the plant prevented regional economic collapse and preserved strategic industrial capacity.
3. **The Systemic Trap:** The IDC was effectively subsidising the failure of Transnet and Eskom.

He cleared his throat to speak.

"Colleagues, we have three options today. Option A: We reject the loan. We protect our balance sheet, but we accept the de-industrialisation of KZN and the loss of 3 500 jobs. Option B: We approve the loan. We buy six months of time. We likely lose the money, but we fulfil our counter-cyclical mandate and give the government one last window to fix the logistics crisis. Option C: We propose nationalisation, taking equity instead of debt, and run the plant as a strategic non-profit asset."

Jarvis paused.

"We are the Industrial Development Corporation. If we walk away when the fire is hottest, why do we exist? But if we burn our capital on dying industries, how do we build the future?"

He looked at the Chairperson.

"The Executive recommends..."

[CASE ENDS]

EXHIBITS

Exhibit 1: The "Death Spiral" – AMSA Financial Performance (2023-2024)

Key Metric	2024	2023	% Change
Revenue	R38,596m	R41,637m	▼ 7.3%
EBITDA	(R1,816m)	R56m	▼ Critical
Headline Earnings/Loss	(R5,102m)	(R1,890m)	▼ 170%
Cash used in operations before WC movement	(R1,973m)	R246m	▼ Cash Burn
Net Borrowings	R5,111m	R3,215m	▲ 59%
Net Asset Value	R1,963m	R7,799m	▼ 75%

(Source: [ArcelorMittal SA Integrated Report 2024](#))

Exhibit 2²: The IDC Balance Sheet Constraints

Key Metric	2024	2023	Risk Status
Group Net Profit	R7.8bn	R10.7bn	Declining
Impairment Ratio	36.4%	37.5%	⚠ High Risk
Non-Performing Loans (Amortising NPL ratio)	26.3%	28.3%	⚠ High Risk
Mining & Metals Exposure	R34.9bn	n/d ³	Concentrated

(Source: [IDC Integrated Report 2024](#))

Exhibit 3: The Macro Context (2024)

- SA GDP Growth: 0.7% (Stagnant)
- Construction Sector Growth: -2.1% (Recessionary)
- Transnet Freight Rail Performance: >40% of delivery targets not being met.
- Eskom Tariff Hike: +14% (vs. CPI of ~5%)

² IDC figures are reported for the 2023/24 financial year (vs 2022/23), not AMSA's calendar-year reporting.

³ not disclosed comparably