Privatisation-The venture into steel

If the talk in the media is anything to go by, then it seems that a highly dubious privatisation has taken place. The Ceylon Steel Corporation, de spite generating consistent profits, has been sold. A foreign concern has snapped it up at a sum that is far below its assessed value. The workers face an uncertain future.

In actual fact, it is this kind of talk that is dubious, not the privatisation. You, as a member of the general public, have the right to know the truth in a matter that is of such profound consequence as this. You have the right to ask questions and be rewarded with the proper answers, as against hearsay and speculation.

So with regard to the privatisation of the Ceylon Steel Corporation, let's ask the questions and have the answers.

Why is the Ceylon Steel Corporation being sold? After all, it is making profits, not losses. First of all let's have a look at this profitability. Would the Steel Corporation be making money if it wasn't protected by a 35% duty levied on imported steel? What would it's position be if the regulation that specified that all Government contracts be given to the Steel Corporation were revoked? In reality, it is the consumer and the taxpayer who are underwriting these profits. Unfortunately, the measures that have made the Steel Corporation comfortable have no place in today's economy. Duties are being reduced, import controls are being removed, commerce is being liberalised. In these circumstances, the profits could evaporate fast. But more importantly, privatisation has very little to do with profit or loss. It is more about unlocking the true potential of a company and the contribution it can make to the nation's progress. Look at the year 1994 – there was a construction boom and heavy demand for steel. Yet, the Steel Corporation was operating below capacity! Why? Because alternative sources were offering steel at better prices the Steel Corporation simply couldn't compete.

Look at the state of the Steel Corporation. The mill equipment has a lifespan of twenty years. The equipment at the Steel Corporation is now over thirty years old! Furthermore, the company that supplied it collapsed along with the Soviet Union, so the necessary spare-parts are no longer available. Only two companies in the world supply the correct raw steel billets required for this outdated plant. So the Steel Corporation is forced to buy from them on their own terms.

A complete overhaul of the facility is required at enormous cost. The Steel Corporation is in desperate need of new investment, new technology and new management systems. It has to be able to compete in terms of quality and cost in a free global market economy. The government just does not have the resources to undertake this mammoth task. That's why privatisation makes so much sense.

But if it has to be sold, why sell it at a loss? In 1994, bids were called for 55% of the Steel Corporation. Two Japanese companies with local collaboration made an offer. In 1995, the Government asked this consortium if they were willing to come with the same offer. But the offer had been withdrawn. In 1996 fresh bids were called for. There was only one respondent, the Hanjun Company of South Korea. It has agreed to buy 90% of the shares.

The fact that there was only a single response to the invitation puts paid to the story that the Steel Corporation was such a valuable property. But even so, the sale can hardly be considered a loss, because the purchase price is only a minute part of the overall agreement. The new owners have offered the Steel Corporation and the nation an enormous array of benefits as part of this agreement.

So what have the new owners offered? First, let us look at the new owners, the Hanjun Company. This firm was instrumental in the process that has made South Korea such a dynamic and prosperous country today. Its areas of operation. cover not only steel but cement, energy, diesel engines, chemicals, and electronics. It undertakes infrastructure projects throughout the world. It is a company of vast resources and huge potential.

Hanjun paid Rs 840 million for the Steel Corporation. But that's just the begining. It has committed a further Rs 560 million for the essential modernisation of the facilities. As a result, production will increase from the present 45,000 metric tonnes per annum to close upon 75,000 metric tonnes, while efficiency and quality will grow apace.

In addition, Hanjun will build another steel mill that will produce 300,000 metric tonnes of steel per annum. Two-thirds of this will be exported. Sri Lanka will soon be a country that exports steel!

To generate power for this project, a power station will be constructed generating 280 megawatts Excess electricity will be fed to the national grid.

Finally, Hanjun has also agreed to build an oil refinery, capable of producing 50,000 barrels a day.

Thus the total investment involved will exceed Rs 4000 million. How can this possibly be considered a loss? What will become of the workers? Aren't employees of private companies subject to inferior treatment?

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This is a popular perception, but nothing could be further from the truth.

Workers rights apply equally to private and state companies – both have to abide by the same set of guidelines promulgated by the Government. In fact, there have been more instances of worker dissatisfaction in state ventures than in private ones. In general, private sector workers are better paid and enjoy better working conditions – it is a combination that encourages greater productivity.

In the case of the Steel Corporation, the new owners have agreed on no uncertain terms, to abide by strict conditions. There will, for example, be no illegal dismissals. There will be no change whatever in the existing terms and conditions of service and benefits of the present employees. On the other hand, the Steel Corporation workers have much to look forward to. There will be incentives and rewards for good performance. There is opportunity for training, both here and abroad. And for truly exceptional employees, there is the chance of an overseas posting.

What about Steel Corporation customers. What have they got to look forward to?

With better equipment, better management practices, and better technology, Steel Corporation products will surely improve dramatically in terms of quality and value. With its sights set on the global market, the Hanjun Company will ensure that output is, quite simply, world-class.

These are the facts behind the privatisation of the Steel Corporation. There will be those who are wedded to conservative, outmoded thinking who may try to tell you otherwise. There are others who might simply be misinformed. Remember what you

have read here whenever a discussion on the subject arises, take an interest in privatisation because after all, everybody has a stake in it.