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WORKSHOP ON STEEL TRADE ISSUES

STEEL TRADE AND GLOBALISATION:
STATEMENT BY MR. FRANK BOKELOH

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**WORKSHOP ON STEEL TRADE ISSUES
STEEL TRADE AND GLOBALISATION
STATEMENT BY MR. FRANK BOKELOH,
CORPORATE DIRECTOR OF MARKETING, ISPAT INTERNATIONAL N.V.
PARIS, 27-28 MAY 1998**

Good morning Ladies and Gentlemen

1. I want to thank you for the opportunity to present our thoughts on the globalisation of steel and steel trade here today.
2. While there may be some disagreements as to the exact definition of globalisation, we at Ispat believe that globalisation refers to the extent to which a company has assets and sales in many countries and engages in cross border flow of goods, know-how and capital.
3. Based on the above definition, today LNM Group and Ispat International are indeed the world's first global steel company.
4. We are also the world's fastest growing steel producer. Our shipments have grown at a 62 per cent compounded annual rate since 1991, and since 1989 Ispat has acquired six steel facilities in five countries.
5. In March we signed a binding letter of agreement with Inland Steel Industries to acquire Inland Steel Company.
6. Upon closing, Ispat International will become the seventh largest steel producer in the world, excluding further acquisitions.
7. LNM Group, which is the owner of 80 per cent of the shares of Ispat International, also owns Ispat Karmet in the Republic of Kazakhstan as well as Ispat Indo in Indonesia. So after the purchase of Inland Steel LNM Group will rank as the third largest steel producer in the world.
8. We have identified *10 forces driving globalisation in the steel industry* which I would like to share with you today.

World's most versatile metal

9. Steel is the most versatile man made material ever developed. Steel is used in every corner of the globe for millions of useful applications. It is long-lasting and recyclable.

Global flow of knowledge

10. Forces unleashed by the fast pace of development in the information technology have significantly accelerated the globalisation of the steel industry. Knowledge sharing allows improved steel manufacturing techniques to be rapidly implemented on a worldwide basis. Look at the introduction of thin slab casting only 10 years ago. Today 25 facilities adopting this technology are in operation or under construction around the world, representing a committed investment of \$7.5 billion.

Customers are going global

11. Automotive companies increasingly want their principal suppliers to follow them as they expand their manufacturing facilities around the world. Many Japanese suppliers, including steel companies, followed the Japanese car makers into the United States. Inland Steel built INTEK and INKOTE with Nippon Steel primarily to meet the quality requirements of the Japanese transplant auto companies. Now Inland sells to all US car manufacturers.

12. At Ispat we have established our leadership as a global producer and our widespread geographic locations give us a global market reach and flexibility.

13. The global customer is becoming ever more demanding as they produce more sophisticated items, so the products *we* have to supply to them must change as well. In fact, we could learn from some of our customers because they are way ahead of the steel industry in becoming successful sophisticated global enterprises.

Privatisation of state-owned companies

14. In the past steel was viewed in many countries as a national strategic industry. Today, however, governments, wary of losses, have come to realise that the private industry is better able to provide all the things needed to operate steel companies successfully, and many governments are committed to work towards liberalisation of all their economies and industries.

15. Ispat International has acquired five steel companies through such privatisations and the LNM Group acquired a sixth one, namely Ispat Karmet in Kazakhstan.

Global consolidation of steel companies

16. Reduced trade barriers will accelerate consolidation in the steel industry. So far regional consolidation is more evident than global consolidation and a good example is the Latin American consortium which purchased SIDOR early this year.

17. We believe we are yet to see more consolidation in Europe. So far the Thyssen-Krupp merger and the CSI privatisation were two major moves in this direction and, as you know, we acquired Thyssen's long product division just prior to the Thyssen-Krupp merger.

18. International steel shipments are increasing steadily. In the last 15 years global cross border trade increased by over 100 million tons and today one third of all global steel shipments consists of cross border trade. It is amazing to see this number because the expanded cross border trade is occurring even while steel remains one of the most frequented targets of anti dumping and countervailing duty suits, brought by protectionistic-minded local steel producers, not just in the USA, but in the European Union as well.

Global competition

19. As trade barriers come down competition takes place on a global basis. This means that those companies which are mainly focused on local markets eventually will need to be competitive with the best

global companies. The filing of trade cases is only a short term remedy, especially in view of the rules governing the WTO and GATT.

Low cost shipping

20. Steel has a disadvantage because of a relatively low value to weight ratio. This applies mainly to carbon steel and on those products freight has a big impact on the markets and customers which can be economically reached by a particular steel facility.

21. Ocean shipments and barge movements account for the majority of cross border steel shipments because moving steel by water is the most economical way. Water shipments also enable low cost receipt of raw materials such as iron ore, limestone and scrap by the steel producing facility.

22. All of our steel facilities, except Karmet, are located either on deep water ports or navigable waterways. Having its facilities located on water, Ispat is able to enjoy significant operating flexibility to adapt quickly to changing market conditions.

23. We also own a fleet of Panamax vessels and find that this helps us consistently to realise the most economic freight rates for shipping both raw materials into our plants and steel out of our plants.

Global steel consumption and steel demand

24. We have seen increased *global steel consumption* in the past 10 to 15 years as the real cost of steel has come down while its quality and versatility have improved. As a result, steel has regained applications previously lost to other materials.

25. We are very optimistic about the prospects of *steel demand* in the future and tend to agree with industry forecasts which predict a 100 million ton increase in steel consumption between now and the year 2005, at which time steel consumption around the world should reach 800 million tons.

26. This creates opportunities for global producers.

Global suppliers

27. LNM has steel manufacturing plants in eight countries and we look for suppliers who can meet our requirements not just in one plant but also in all of them. Next year we will purchase over \$3 billion worth of raw material and supplies.

28. We also initiated an intense effort to co-ordinate the purchase of common raw materials and supplies with the goal of establishing global supply arrangements. We are still in the early stages of this effort but the initiative has already generated significant cost reductions.

Global financing

29. As we all know, the steel industry is capital intensive. By the end of 1998 our Group will complete a \$600 million upgrade and expansion programme and such programmes will go on. On top of this, we are continuing to pursue growth through acquisitions. Obviously, our Group requires capital to

implement this strategy but fortunately the financial markets are also globalising. We have developed excellent relationships with both equity investors and lenders who, like us, are excited by the opportunities to earn an attractive return on capital by participating in the global market.

Ispat's future

30. After hearing me describe these 10 forces I think you will agree that there will be more consolidation in steel. In closing, I will tell you that we want to build on this foundation through acquisitions as well as cost effective internal expansions. We may also look at backward integration into raw materials and continue to focus on building market leadership in the products which we make. We will aggressively push our knowledge integration program and a continuous strong emphasis on our global management philosophy and culture.

Thank you very much.