

Unclassified

CCNM/EMEF/SC(98)3



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

OLIS : 15-May-1998
Dist. : 18-May-1998

Or. Eng.

CENTRE FOR CO-OPERATION WITH NON-MEMBERS
STEEL COMMITTEE

Emerging Market Economy Forum

WORKSHOP ON STEEL TRADE ISSUES

STEEL TRADE AND GLOBALISATION:
STATEMENT BY MR. JOSEF VON RIEDERER

The Workshop will be held in Paris on 27-28 May 1998.

Contact: Mr. Wolfgang Hübner, Head of DoT and the Steel Unit, STI; tel.: (33 1) 45 24 91 32;
fax: (33 1) 45 24 88 65; Internet: Wolfgang.Hubner@oecd.org

65539

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

CCNM/EMEF/SC(98)3
Unclassified

Or. Eng.

**WORKSHOP ON STEEL TRADE ISSUES
STEEL TRADE AND GLOBALISATION:
STATEMENT BY MR. JOSEF VON RIEDERER - PRESIDENT FENA
MEMBER OF THE EXECUTIVE BOARD, THYSSEN HANDELSUNION AG
PARIS, 27-28 MAY 1998**

Principal Issues:

- What are the forces driving the growth in global alliances in steel? Is this growth likely to continue? If so, in what forms?
- How is the growth in global alliances likely to affect competitive conditions in the industry? Will it weaken or strengthen competition? How will it affect industry efficiency? How will investment be affected? What policy issues need to be addressed in this regard?

1. It is a special privilege to be asked to assist in this panel of the OECD Workshop on Steel Trade Issues. To my knowledge it is the first time that a representative of FENA, the organisation of the steel stockholders in the European Union, is able to make a presentation to this distinguished audience.

Opening Remarks

2. While the heading of this session talks about trade, the questions seem to cover mostly steel production issues. But I will try to at least find a niche for trade.

3. Regarding the alliances alluded to in the first para most of them - global or not - seem to me alliances in steel production as explained in N 16-18 of the background paper.

4. As far as globalisation is concerned, steel trade with or without alliances has been global for a long time. Trading usually comes before either the diplomats, the politicians, or the producers. Think of the Venetian tradesman Marco Polo who travelled to India and China in 1271 or the East Indian Company from the 17th century on. For both, one thing was important: to fulfill the needs of their customers.

5. All the important steel trading groups today are global and they will continue to be global.

6. Looking at global trading in steel you have to distinguish very different steel markets and very different types of trading with very different functions. I would like to point out a few aspects on these issues before turning to the questions concerning global alliances and the competitiveness involved.

Steel markets

7. An important part of the world steel consumption is the cold rolled and exposed coated sheet steel for automobile bodies. According to Eurofer, this market covers about 28 per cent of the steel production in the European Union. The steel for automobile bodies is very high quality steel which is nearly not used outside the car industry. The supply of these steels is more or less a direct business between steel producers and car manufacturers. With the exception of specialised service centers and

traders responsible for international transports or other logistic functions, most traders are normally not involved in this business.

8. Then there are quite a few special steel markets in which only specialized traders have a significant part. Those markets are defined either by their specific character of intended purpose - i.e. the defense industry - or their prevailing technical aspects -- i.e. sheet piling -- where you need very special competence. In those markets also the producer and the user of steel will mostly deal directly.

9. Most of the other steel consuming branches are the customers of the steel traders.

Steel Traders

10. First, there are independent international traders that buy and sell large quantities of steel from different countries to other different countries, in many cases unfortunately lacking the sensibility for the price situations in these different markets. This may be due to the fact that they partly deal with steel as they deal with other commodities like crude oil or rice. This kind of business may be seen as a type of trading which has not the original function in the steel markets, i.e. connecting steel production with steel consumption.

11. There is a second category of steel traders whose main raison d'être is the export of steel from one or more distinctive steel mills to their overseas customers. In many cases these trading houses also have a mere trading business, that means buying and selling steel off-shore, but mainly back-to-back. This category of steel trader certainly has a clearly defined product and market orientated function in the steel market, namely the marketing and the distribution of the product for the producer in foreign markets.

12. Finally there is the category of trading houses with warehouse and/or service center facilities for steel and other production materials like non-ferrous materials and plastics. In contrast to the other two types, their policy is mainly consumer orientated: the just-in-time supply of the consumer's needs, a goal for which stockholding is mandatory. This group plays a major role in the steel distribution; it is a vital link between the steel producers and the steel consumers - with nearly a 50 per cent share of the steel market within the European Union and between 30 and 40 per cent share within the North American market.

13. As many steel mills concentrate their production on either flat rolled - mostly sheet steel - and others on long products and again on either the heavy or the light end, only the steel stockholding trade is offering the wide range of steel products to the steel consumers. The stockholder may be seen as the steel mill around the corner that is able to deliver just in time whatever the customer needs wherever and whenever.

14. With its performance in global sourcing, in warehousing and service centering, in just-in-time-deliveries and last not least in financing not only of their stocks but in very many cases also of their deliveries to the customers for at least four weeks, this category of trading houses is a very important part of our economic system.

15. In order to be able to fulfill this function the stockholding trade in the European Union has regularly about 11 million tons of steel in stock at an equivalent value of more than US \$4 billion. Due to this value of their stocks, this group, of course, is very sensitive to changes in the steel market and specifically to changes in steel prices.

16. I think it is obvious that these three groups of traders have very different and in many ways very conflicting interests in the global trading of steel.

Growth in global alliances

17. The forces driving the growth in global alliances in steel production are manifold:

18. It is the policy of many companies to be within the top three to five in their main field of activity or competence that drives them to overseas investment and to global alliances. This modern ambition to be a global player is not steel specific, but it clearly affects the steel industry too.

19. Partly it may also be the necessity to follow important customers, like the car industry into new countries, specifically if transportation cost makes production at home uncompetitive for this market.

20. It may simply be the desire to increase market presence in a given market that you can continuously only service with difficulties such as currency changes, transportation cost, antidumping threats etc. etc.

21. I don't think that globalisation is mainly driven by the difference in labour cost. In steel production labour cost is an issue, of course, but not the most important one. At least I would not know of any steel production site that was closed for labour cost alone for a new site in a low-labour-cost-country, as is true for many other products. The steel industry in the true sense of the word is too heavy an industry to be easily moved from one country to another.

22. The drive to globalisation will continue, it will even -- I think -- pick up speed in the future and it will be in all kinds of forms. And the warehousing and service center industry will have to follow and it will have to pick up speed too.

Competition

23. The globalisation of steel production will increase the competition in steel and that even if steel consumption is increasing with the same speed as the production.

24. Perhaps the most important factor for the global development of steel distribution is the fact that steel is one of the basic industries with a major part in any further industrialisation: without steel there is no sufficient infrastructure and without infrastructure there simply is no industrialisation; building up an infrastructure is a business heavily related to steel. Therefore one of the first steps in the typical industrial development of a country is the implementation of some kind of steel industry to replace the import of steel as the only possibility to develop the country.

25. This regular process inevitably leads to a conflict which everybody knows about for some time. To begin with the steel industries of the industrialised countries supply not only their home markets but the emerging markets as well. Then the newly implemented steel works in the emerging markets do not restrict themselves to their own backyard but for different reasons tend to look for their export possibilities. This process naturally generates competition.

26. On the other hand steel production, even with mini mills, is always locally increased by a very high percentage when a new investment goes on stream; the consumption will only by a rare chance be increased by the same rate at the same time in the same area. And on the traditional site of steel

production there will be a certain over-capacity because the export to the new production site is no longer necessary or even possible and the local consumption on the traditional site again is not increasing by the same amount as the new over-capacity at this very moment. The result of this will be competition on an increased level in both locations.

27. For the two first kinds of steel traders mentioned above this kind of globalisation by new investment will bring new chances. The third kind of steel traders in the "home market", of course, faces the threat of falling prices due to the mentioned over-capacities if production will continue to run at full speed even without the full export possibility. I have said the threat of falling prices because falling prices devalue the stock of these traders with the imminent danger of heavy losses.

28. Hectic changes of the markets - of course, with hectic changes in prices - are not in the best interest of all the market partners. The best we as partners in the global steel market can do is to assure an excellent connection between the ultimate customer who uses the steel for his production and the steel producer.

29. The more one or more steel mills produce a special quality for a special part of a special customer -- as we say in the trade "a steel to make the part" -- the more steel users and steel producers are interested in an uninterrupted business relation. That, of course, does not mean a freezing of prices. Prices have to follow the market.

30. I am alluding to the last question of the Principal Issues: what policy issues need to be addressed in this regard?

31. The more competition we have from the globalisation the more governments tend to take antidumping measures to protect their industry against so-called unfair trade. Of course, they only protect their steel industry at the detriment of their steel consuming industry and their customers.

32. The "Wall Street Journal" of March 27, 1998 had a very interesting article on its first page clearly showing what is behind these antidumping cases. Whenever an antidumping case is filed business relations between steel consumer and steel producer are in danger or definitely disrupted.

33. The United States steel industry makes the filing of antidumping cases a strategic weapon, as the "Wall Street Journal" points out, of their competitive strategy of the market. What they seem not to see is that these trade cases also hurt the responsible traders more than the irresponsible traders who do not care too much about the market impact of their deliveries.

34. The danger of this United States anti-dumping policy for steel clearly is that the business relations that do no harm to the market are hindered while the other traders just wait around the corner until the bad weather is over.

35. The problem is to clearly define policy issues in the field of antidumping that can distinguish between these different kinds of steel trade. In a time where human intelligence was able to land a man on the moon some decades ago you would guess that it should be possible to find a solution to this pressing problem too.

Final remarks

36. There can be no doubt that the steel industry which apart of the high tech end of its spectrum must be seen as a technical low level industry with a lot of homogeneous products without specific

requirements is wide open to further globalisation. This has already produced some 'steel tourism' with very negative economical side effects.

37. The lesson to be learned from the past decades of steel marketing is a very clear one, namely that steel production capacities which by far exceed steel consumption will lead inevitably to ruinous competition for a whole industry. It seems possible that we are about to make the same experience once again – this time on a global scale.