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WORKSHOP ON STEEL TRADE ISSUES

STEEL TRADE AND GLOBALISATION:  
STATEMENT BY MR. ANDREW MARJORIBANKS

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

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**WORKSHOP ON STEEL TRADE ISSUES  
STEEL TRADE AND GLOBALISATION  
STATEMENT BY MR. ANDREW MARJORIBANKS  
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PARIS, 27-28 MAY 1998**

1. It is recognised that the topic is very wide and so this paper only seeks to make some observations and raise issues from an Australian perspective and also from the author's experience as just retired Chairman of the International Iron & Steel Institute Promotion Committee.
2. Australia has a very large involvement in the iron and steel industry. Although only accounting for 1.2 per cent of world steel production, Australia accounts for about a third of the world's total seaborne trade in iron-ore and about forty percent of traded metallurgical coal. My own company, BHP, is both the leading Australian iron-ore and metallurgical coal exporter as well as being the largest steel producer in Australia and so has a deep interest in the international steel industry and a very particular interest in close neighbouring Asia.
3. Asia is the fastest growing steel market in the world, makes up 45 per cent of world steel demand and imports almost 10 per cent of world production so this interest is not surprising, and strong connections to the region have been developed.
4. The steel producing operations of BHP are very much involved in both trade and in regionalisation if not full globalisation.
5. In trade BHP has exported a rather higher percentage of our production than most integrated steel producers - some 40 per cent in recent years - but this is about to reduce. It operates three integrated and one EAF plant in Australia producing just under 8 million tonnes per annum. The largest is a flat rolled 5 mt/a integrated plant at Port Kembla. The oldest integrated works, at Newcastle, produces 1.5 mt/a of long product and has been an exporter of billet and rod for engineering grade rod and wire products. This market is changing significantly as many of our export customers have turned to making their own steel, using the electric arc furnace process, and in late 1999 we will shut down the steelmaking facilities at this integrated works, and our exports of all types of steel will fall back to around 25 per cent of production. This leads to two observations.
6. The first one is that in one part of the industry at least, we are seeing the emergence of localisation. This is being driven by the availability of low capital cost, low volume electric arc furnace technology available to investors to be installed in very local areas where the market reach for the relatively unsophisticated product is virtually the same as the collection reach for scrap.
7. This is quite the reverse of globalisation and is typical in the long products business.
8. In these local situations it is difficult to see any advantage in alliances or in any other move to globalisation unless it is through equipment suppliers or unless scrap supply changes to DRI and raw material becomes the linking factor.
9. The second observation is that so called "blue water" export of steel is limited by the high cost of freight relative to the value of the product. This could mean that blue water export in the long term is

limited to marginal incremental production and that the investment to participate in a global trade in steel products is unlikely to be a viable proposition.

10. This is much less of a factor in the globalisation of high value product industries.

11. BHP has developed over the last thirty years or so, a Pacific Rim network of businesses based on supplying construction markets with metal coated and painted lightweight steel building products.

12. This started originally with export of these products and has progressed by integrating backwards up the manufacturing chain to the point where the company now has two cold rolling mills, five metal coating and six coil painting lines, and a number of rollforming operations so that in all there are over forty individual sites located around the Pacific Rim.

13. While this is a regional rather than a global development it is one of the relatively few steel based initiatives that have moved in this direction.

14. The main drivers have been a focus on the lightweight segment of the construction market allied to technology evolved to meet the metal coating and coil painting needs of this market.

15. Establishing the businesses has very often involved joint venture partnering, and technology transfer. Brand name development and marketing skills have all been part of the package.

16. One element emerging from this regionalisation is the fact that some of our major customers in the construction industry are also regional, which has enabled strong transboundary relationships to develop and has been a factor in the growth of these business as it has enabled the construction companies to go forward with confidence in quality of product and level of service.

17. As yet this is not a prevalent feature of the construction industry in general but many other of the world steel industry's major customers are truly global.

18. The automobile, packaging and whitegoods industries are cases in point.

19. The globalisation of these customers has led to a globalisation effect on the steel industry.

20. These customers now have the means to compare price, quality and service levels of steel supply around the world and exert a level of competitive benchmarking on our industry hitherto not seen. In my view this is a pressure which will only increase and in due course will impose a form of globalisation on the steel industry, whether or not the industry itself becomes global, and under its regime, levels of efficiency, service and other competitive factors will improve.

21. So far the idea of the steel industry globalising itself as a response to the globalising of its customers has not emerged. Whether globalised customers on their own would drive the industry in this direction is a matter for conjecture and will no doubt be discussed in this forum.

22. The future capital requirements of the industry could however be a catalyst.

23. Some analysts predict strong growth for steel over the next 25 years especially in Asia, current difficulties notwithstanding. With the great majority of the steel industry now out of state hands, funding this growth becomes a matter for private enterprise and while a proportion of the growth will come from small scale electric arc technology, large volume flat rolled product - where much of the growth will be -

is still likely to come from large scale integrated operations requiring capital in an amount which would seem to need partnership to achieve, and also to dilute the risk to any individual enterprise.

24. One other aspect of globalisation is worth mentioning and that is the industry's recognition of both the vulnerability of steel in intermaterial competition and the opportunities it has for growth as a material of choice for many applications.

25. Through the International Iron & Steel Institute, which the industry formed over 30 years ago, a great many projects have been undertaken for the industry's benefit. Two of the most recent have been the Ultra Light Steel Auto Body (ULSAB) and the Life Cycle Analysis (LCA) projects.

26. The ULSAB project involved 35 steel companies, a budget of \$20M and successfully achieved a 25 percent reduction in autobody weight to more than match the challenge of aluminium, as well as pioneering new cost saving construction techniques for the benefit of automotive customers.

27. The LCA project involved 37 companies operating 55 steelmaking sites and has been widely recognised as setting new benchmarks in the understanding of environmental performance, which is fast becoming a critical factor in the choice of materials.

28. Both of these projects were extremely complex, were conducted over several years and involved a very high level of co-operation and management. They also involved a commitment of resources which while not very high for any participating company, would have been almost impossibly high for, say, a hypothetical global steel company.

29. This almost unique ability, which the steel industry has developed, is a strong competitive advantage in the intermaterial struggle and is both a mean of defence and a means of expanding the market for steel products.

30. So that is another aspect to take into account when considering the globalisation of steel.

31. Finally, the discussion on Steel Trade and Globalisation would not be complete without reference to trade liberalisation.

32. Whether trade blocs will take us down the path of regionalisation rather than globalisation; how fast will we be able to progress with the Multilateral Steel Agreement; will the Asian crisis lead to the revival of protectionism or will the International Monetary Fund and the World Trade Organisation act to prevent this are all questions which will have a very significant impact on the development of globalisation and I look forward to the discussion.

33. Thank you.