Unclassified **SG/STEEL(2005)25**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development **20-Jan-2005**

English text only

DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY

SG/STEEL(2005)25
Unclassified

OECD Special Meeting at High-Level on Steel Issues

WORLD STEEL INDUSTRY FACES 21ST CENTURY CHALLENGES

Presentation by Mr. Guy Dollé, Arcelor

The Outlook for Steel Conference, organised by the OECD in co-operation with the IISI on 12-13 January 2005 at the OECD Headquarters in Paris.

Wolfgang Hübner, Head of Division of Transport and Steel Unit
Tel: +33 1 45 24 91 32 Fax: +33 1 44 30 62 63 E-mail: wolfgang.hubner@oecd.org

JT00177258

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

English text only

World steel industry faces 21st century challenges

Guy Dollé, CEO
Arcelor

OECD - IISI Conference, Paris, January 2005

arcelor

World steel consumption evolution over 130 years

World

1873 - 1948: **+ 100 Mt** in 75 years

1948 - 1973: **+ 400 Mt** in 25 years

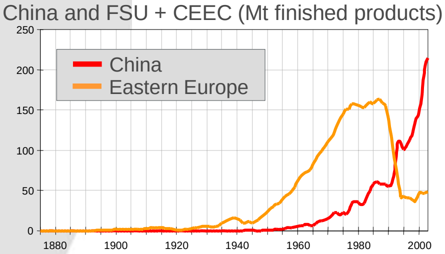
1973 - 1983: **+/- 0** in 10 years

1983 - 1993: **+ 115 Mt** in 10 years

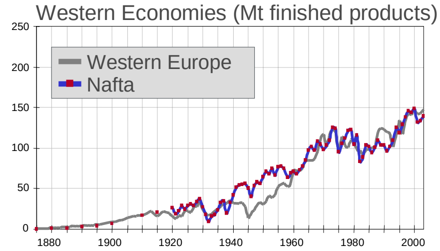
1993 - 2003 **+ 230 Mt** in 10 years

Total World (Mt finished products)

China and FSU + CEEC (Mt finished products)

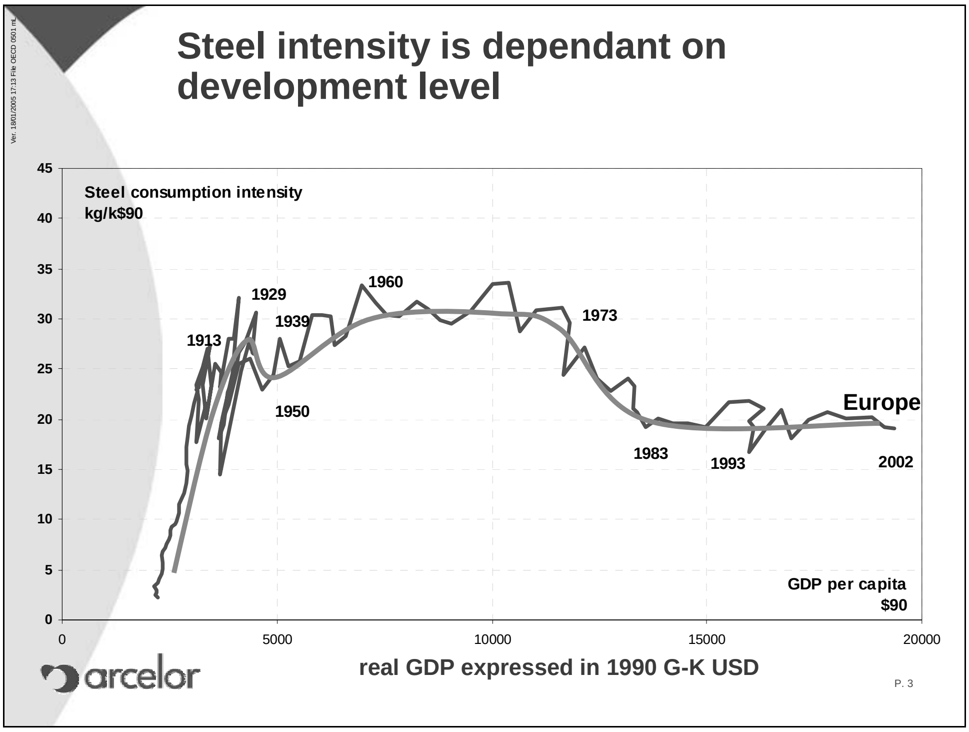


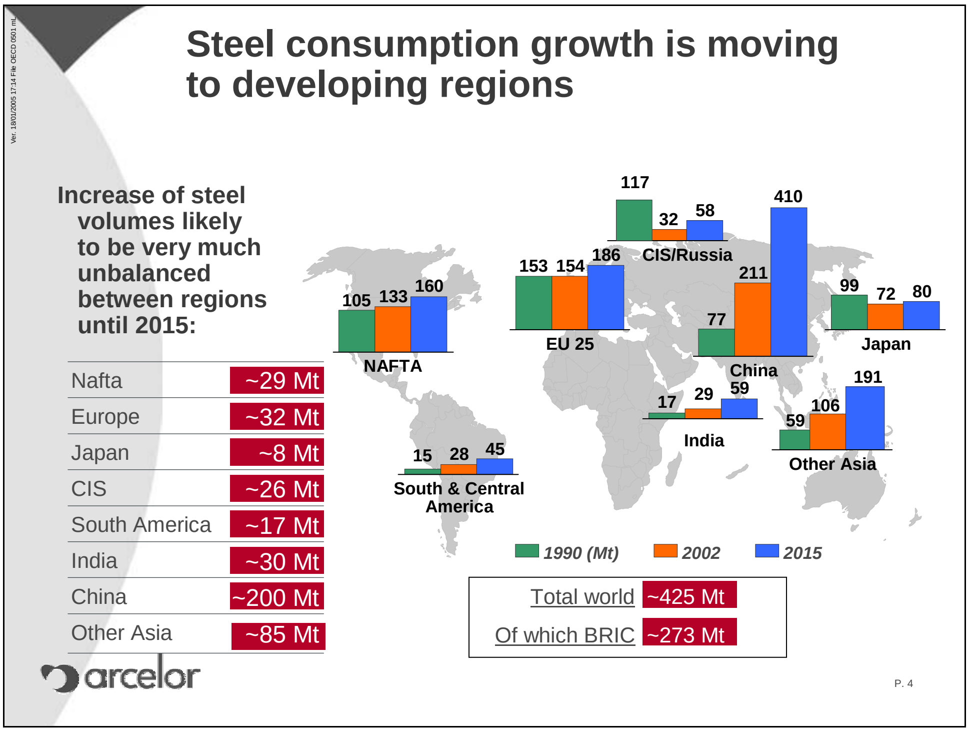
Western Economies (Mt finished products)

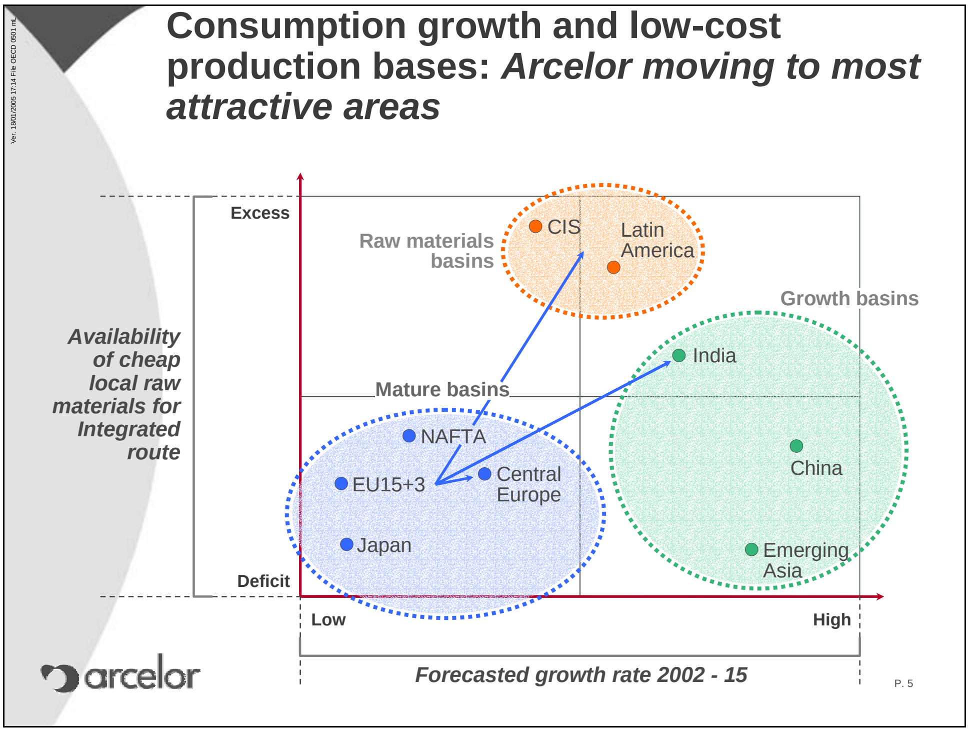


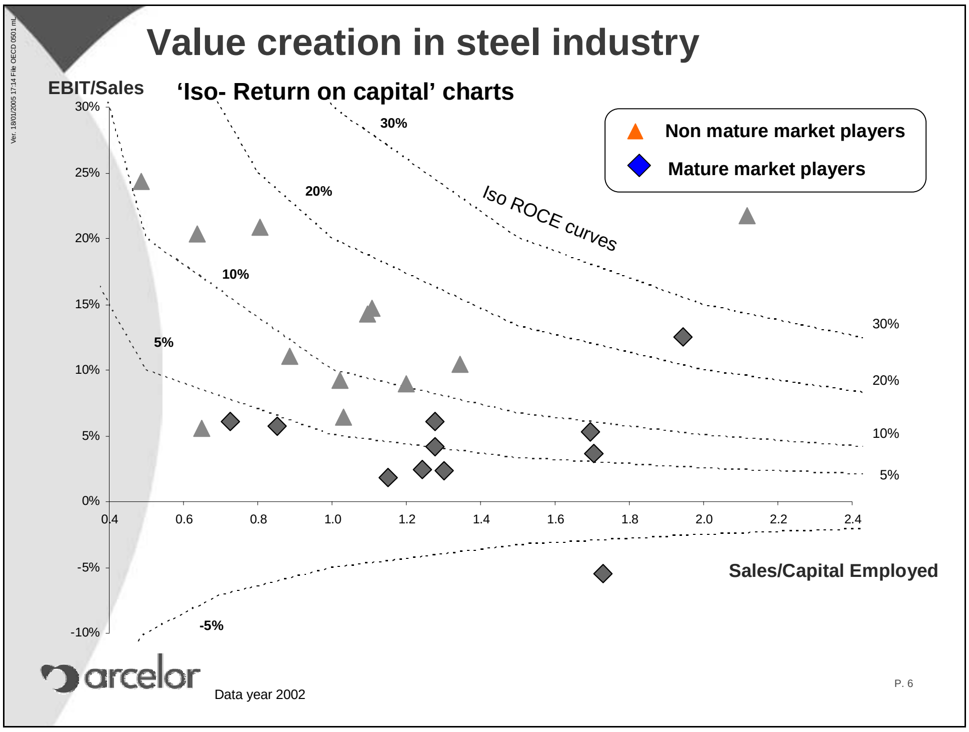
arcelor

P. 2


Steel intensity is dependant on development level
Steel consumption intensity kg/k$90
45
40
35
30
25
20
15
10
5
0
1913
1929
1939
1950
1960
1973
1983
1993
2002
Europe
GDP per capita $90
0
5000
10000
15000
20000
real GDP expressed in 1990 G-K USD
arcelor
P. 3

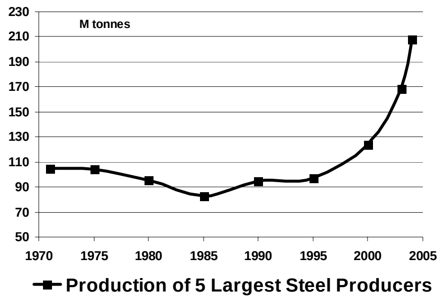

Steel consumption growth is moving to developing regions
Increase of steel volumes likely to be very much unbalanced between regions until 2015:
Nafta ~29 Mt
Europe ~32 Mt
Japan ~8 Mt
CIS ~26 Mt
South America ~17 Mt
India ~30 Mt
China ~200 Mt
Other Asia ~85 Mt
105 133 160
NAFTA
153 154 186
EU 25
117 32 58
CIS/Russia
77 211 410
China
99 72 80
Japan
17 29 59
India
59 106 191
Other Asia
15 28 45
South & Central America
1990 (Mt)
2002
2015
Total world ~425 Mt
Of which BRIC ~273 Mt
arcelor
P. 4


Consumption growth and low-cost production bases: Arelor moving to most attractive areas
Excess
Raw materials basins
CIS
Latin America
Growth basins
India
Availability of cheap local raw materials for Integrated route
Mature basins
NAFTA
EU15+3
Central Europe
China
Japan
Emerging Asia
Deficit
Low
High
Forecasted growth rate 2002 - 15
arcelor
P. 5


Value creation in steel industry
EBIT/Sales
'Iso- Return on capital' charts
Non mature market players
Mature market players
Iso ROCE curves
30%
20%
10%
5%
-5%
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
0.4
0.6
0.8
1.0
1.2
1.4
1.6
1.8
2.0
2.2
2.4
Sales/Capital Employed
arcelor
Data year 2002
P. 6

Size of steel companies is increasing

- The consolidation of steel industry is in progress at international level:
  - **Arcelor**
  - **Mittal Steel (LNM + ISG)**
  - **JFE**
  - **Nippon Steel, Kobe, Sumitomo**
  - **USSteel and National Steel**
  - **…**



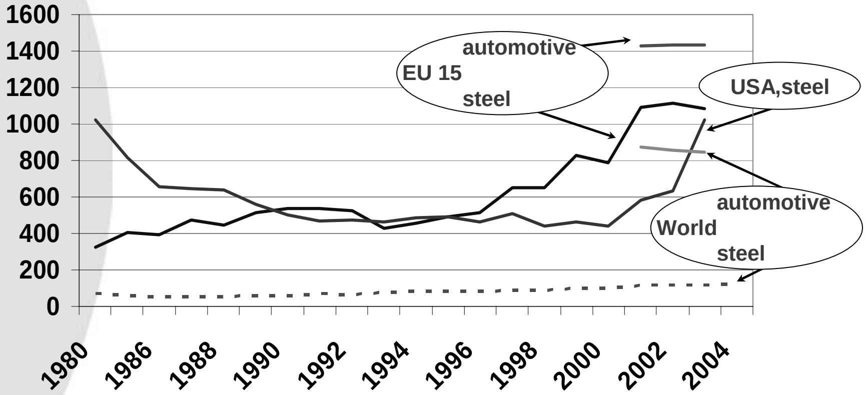
- With cross regional groups emerging over 50 Mt/year, consolidation will continue
- Moves to produce steel closer to ore or energy sources will go one
- None of the 10 largest steel producers was multi-regional in 1990, they are 3 in 2004

arcelor

P. 7

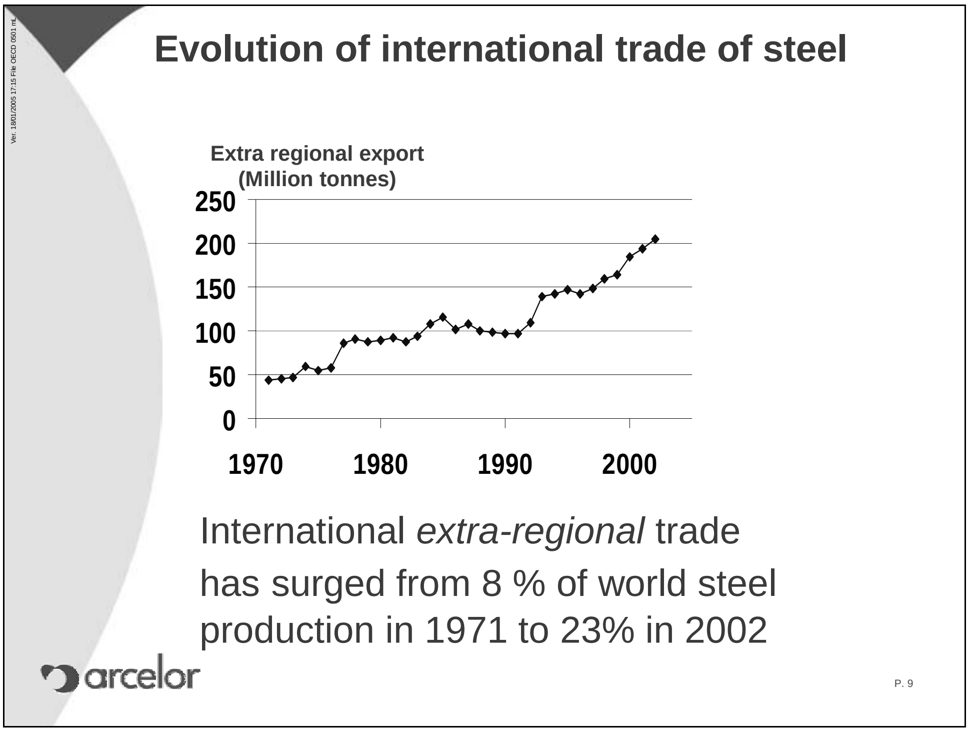
Concentration level : Herfindahl-Hirschman index for the steel industry

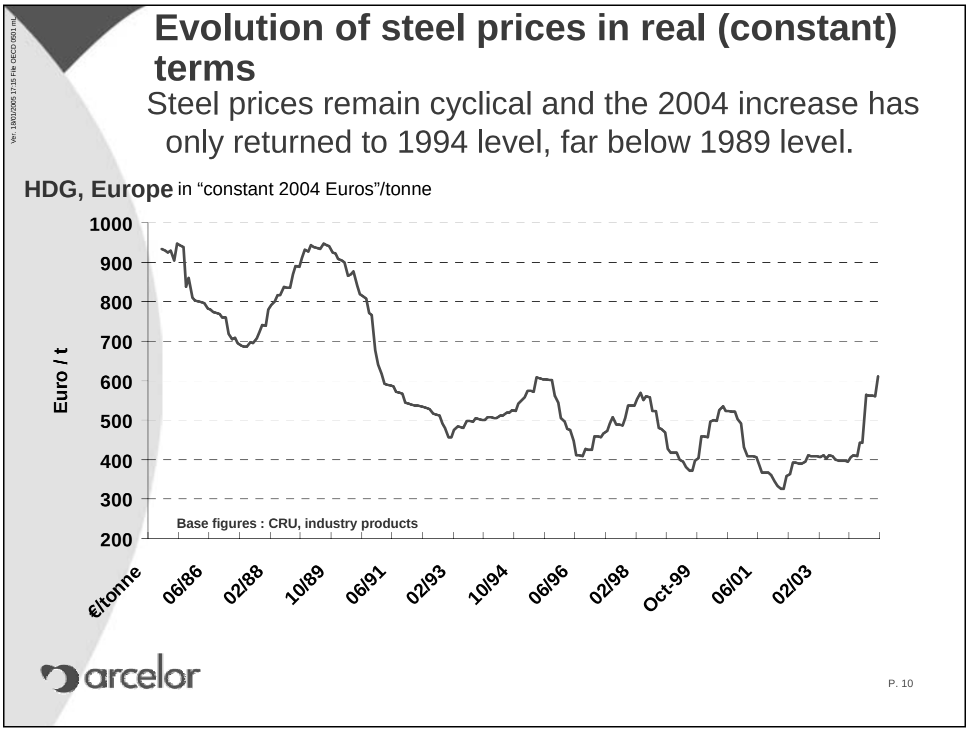
- Despite regional improvements, the consolidation of steel remains very low

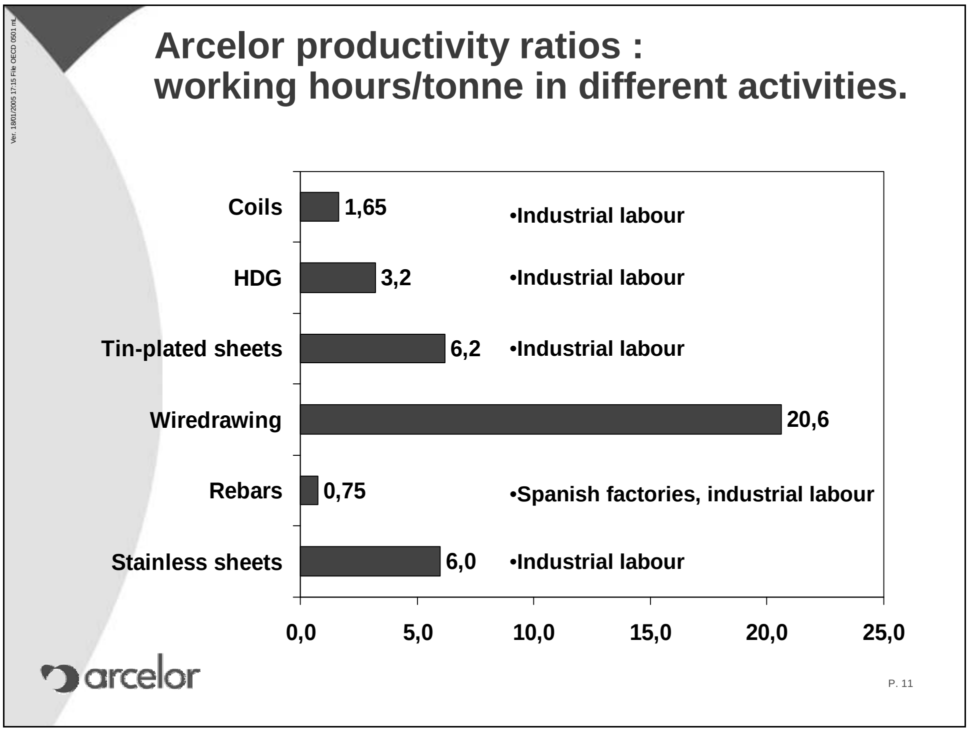


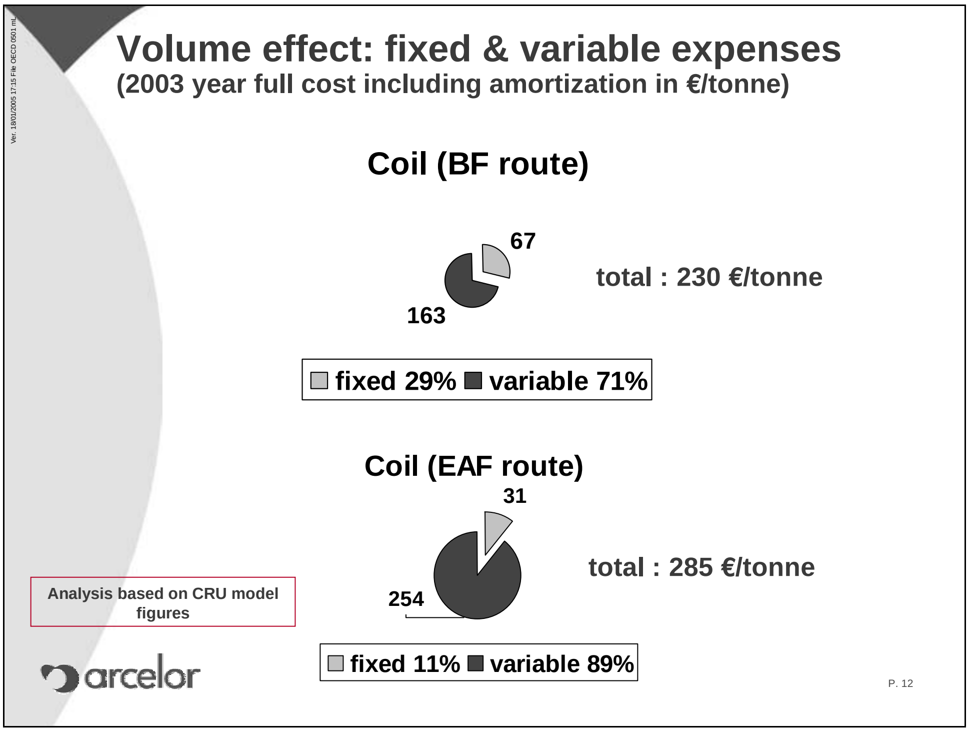
arcelor

P. 8


Evolution of international trade of steel
Extra regional export (Million tonnes)
250
200
150
100
50
0
1970
1980
1990
2000
International *extra-regional* trade has surged from 8 % of world steel production in 1971 to 23% in 2002
arcelor
P. 9


Evolution of steel prices in real (constant) terms
Steel prices remain cyclical and the 2004 increase has only returned to 1994 level, far below 1989 level.
HDG, Europe in “constant 2004 Euros”/tonne
Euro / t
1000
900
800
700
600
500
400
300
200
Base figures : CRU, industry products
€/tonne
06/86
02/88
10/89
06/91
02/93
10/94
06/96
02/98
Oct-99
06/01
02/03
arcelor
P. 10


Arcelor productivity ratios :
working hours/tonne in different activities.
Coils
1,65
•Industrial labour
HDG
3,2
•Industrial labour
Tin-plated sheets
6,2
•Industrial labour
Wiredrawing
20,6
Rebars
0,75
•Spanish factories, industrial labour
Stainless sheets
6,0
•Industrial labour
0,0
5,0
10,0
15,0
20,0
25,0
arcelor
P. 11


Volume effect: fixed & variable expenses
(2003 year full cost including amortization in €/tonne)
Coil (BF route)
67
163
total : 230 €/tonne
fixed 29% variable 71%
Coil (EAF route)
31
254
total : 285 €/tonne
Analysis based on CRU model figures
fixed 11% variable 89%
arcelor
P. 12

New theats to steel Industry

- ➢ NEW ENVIRONMENTAL CONSTRAINTS
- ➢ MATERIALS SUBSTITUTION
- ➢ COMPETITION DISTORTION

arcelor

P. 13

In the long run, consolidation and fair trade behaviour is the only possible way

- World steel consumption will be around 1400 Mtpy by 2015
- When top 5 to 10 steel producers represent 50% of world production, cyclicity will be reduced
- Major players in the range of 70 to 140 Mt per year will arise, through alliances, acquisitions, or mergers
- Some markets will remain very local, more will be globalized, and not only in automotive, domestic appliances or packaging
- Subsidies as well as tariffs have to disapear and more discipline must be developed, under an international authority, as it has been done in Europe in the past

arcelor

P. 14