

STEEL INDUSTRY RESTRUCTURING – THE EU EXPERIENCE

Presentation

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STEEL RESTRUCTURING - *WESTERN EUROPE*

Content

- **Background**
- **EU Steel Industry 1975-1980**
- **The Davignon Plan**
- **Case Study - British Steel**
- **Key Lessons**
- **EU Industry 1985 - 2000**

Context

- **1950s/1960s - a 'Golden Age' for traditional industries**
- **End of 1960s - post-WW 2 slowdown**
- **1970s - the 'start of the end':**
 - **1974 oil crisis**
 - **1979 sharp oil price increase**
- **1980s - period of adjustment**
- **Rescue operations permitted under strict conditions**

EU Steel Industry: 1975 - 1980

- **New EU capacity without closures**
- **New non-EU players**
- **EC and EU steel industry voluntary agreement:**
 - **minimum prices**
 - **delivery quotas**
- **1980 recession:**
 - **collapse of steel markets**
 - **declaration of 'manifest crisis' in EU steel industry**
 - **EC given power to intervene**  **Davignon Plan**

The Davignon Plan

Three levels of intervention

- **‘Internal’ market:**
 - **Short term measures**
 - » production/delivery quotas
 - » minimum prices
 - » no new production capacities
 - **Structural measures**
 - » State Aid Code
 - » Community financing of research
- **‘External’ market:**
 - bi-lateral agreements (prices and volumes)
 - anti-dumping surveillance/procedures

The Davignon Plan (cont..)

- **Social measures**
 - reconversion
 - retraining
 - early retirement

State Aid Code

Community Guidelines on Rescue & Restructuring Aid

- Specific legal framework adopted by the Commission to grant aid to the steel sector
- ‘One time last time’ principle
- National aid scheme: legal framework providing for aid measures and adopted by a Member State
- Aid Granted
 - only to companies that can become economically viable, and
 - limited to that necessary to achieve viability

State Aid Code (cont..)

- ‘The more aid, the more capacity reductions’
- Time limited

Rescue & Restructuring Plans may foresee two types of aid:

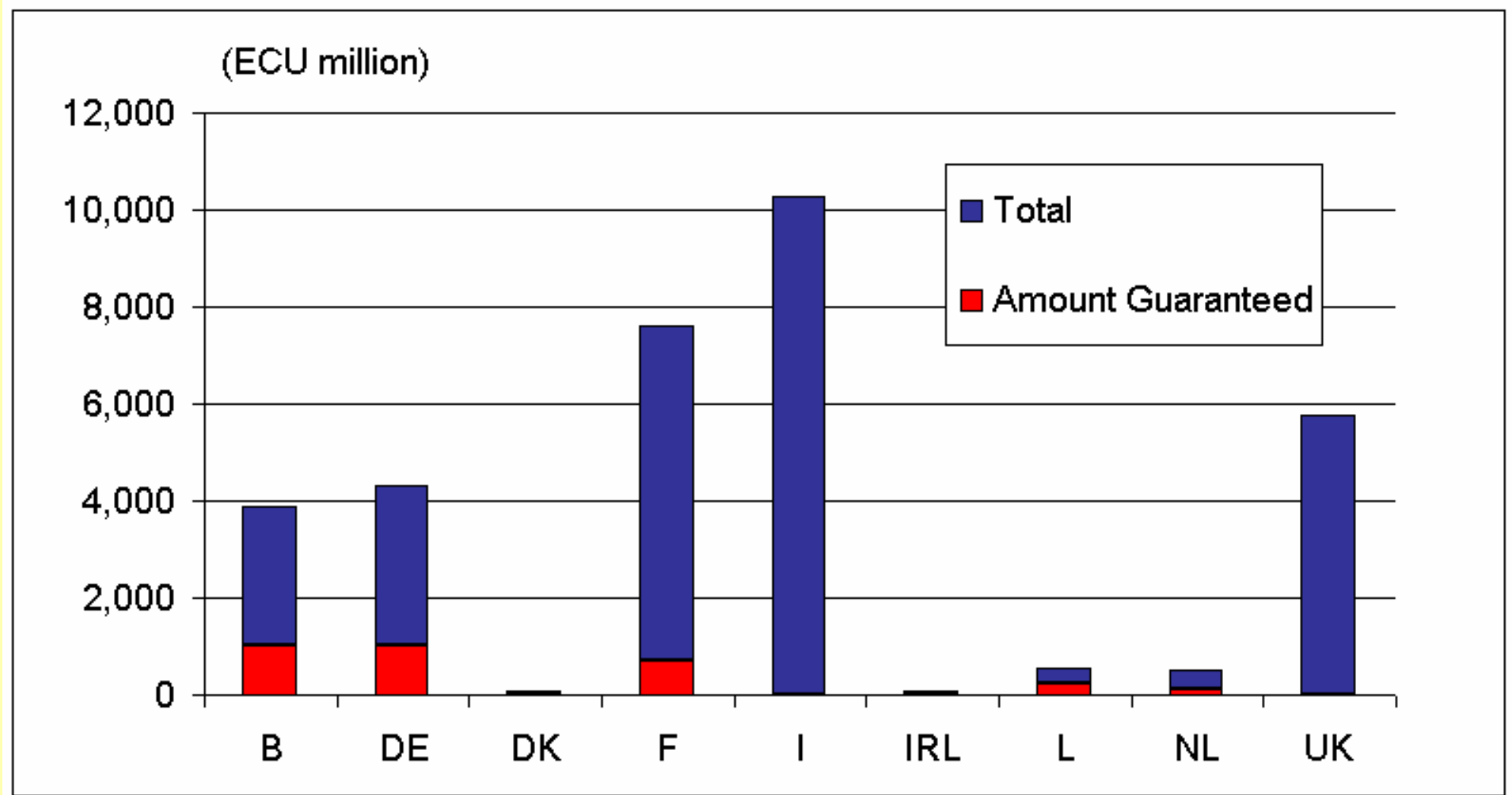
- Rescue aid, to face financial, maintenance and social costs
- Restructuring aid
 - aid for investments aiming at restoring economic viability
 - aid for financial restructuring

EU Restructuring - Capacity

	<i>Production Capacity</i>				<i>EC-required Reductions</i>
	<i>1980</i>	<i>1986</i>	<i>Reduction</i>		
			<i>000 T/year</i>	<i>%</i>	
Belgium	16,028	12,842	-3,186	19.9	3,411
Denmark	941	875	-66	7.0	66
France	26,869	20,724	-6,145	22.9	6,056
Germany	51,869	45,140	-6,729	13.0	6,010
Ireland	57	333	276		
Italy	36,294	29,094	-7,200	19.8	6,634
Luxembourg	5,215	3,920	-1,295	24.8	1,045
Netherlands	7,597	5,865	-1,732	22.8	950
United Kingdom	22,840	17,409	-5,431	23.8	5,155
Total	167,710	136,202	-31,508	18.8	29,327

Free competition from 1985, but State Aids Code remained

EU Restructuring - State Aid, 1980-1985



More than ECU 33 billion

Case Study - British Steel

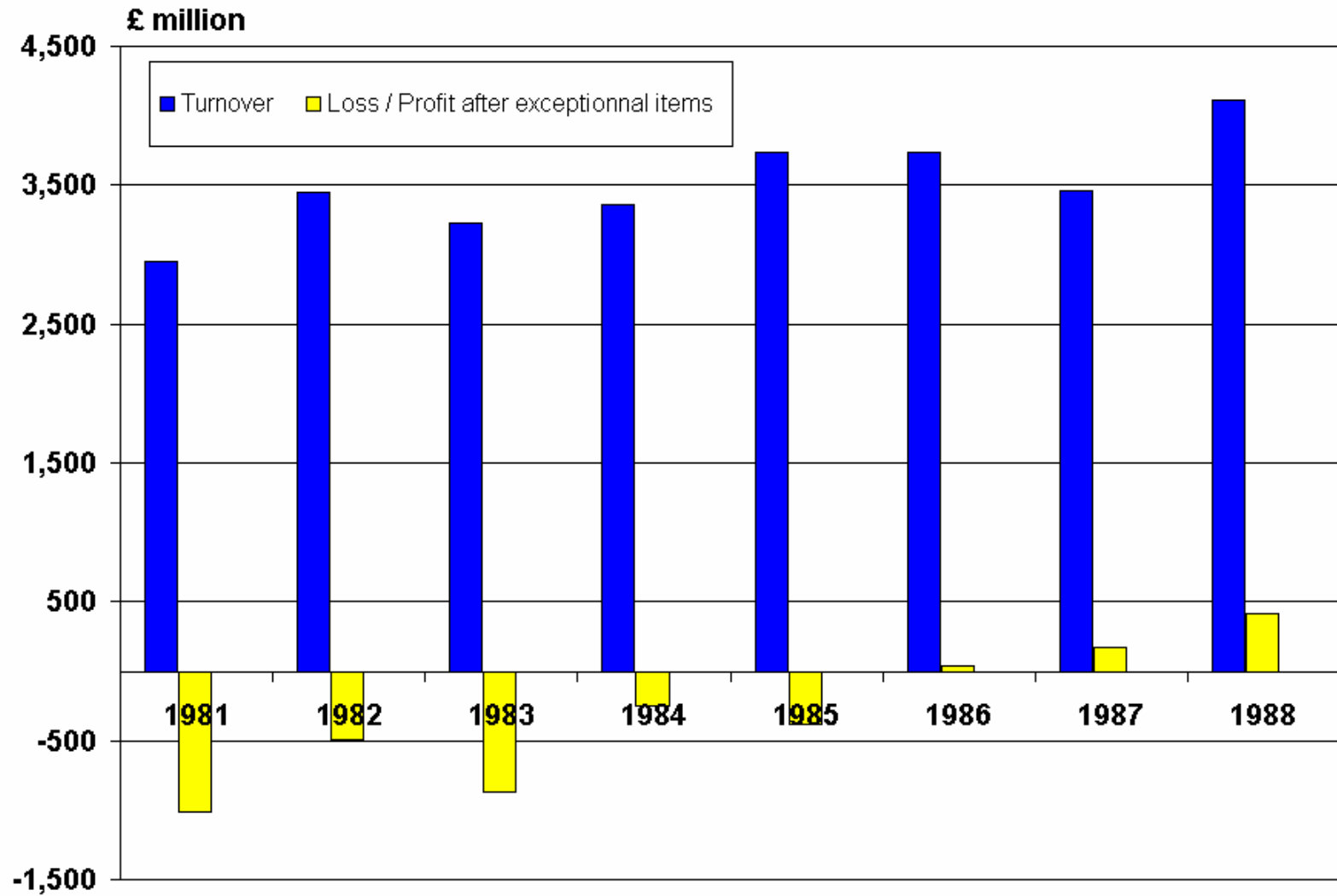
1967

- **Iron and Steel Act nationalised 14 separate steel companies**
- **British Steel created by merger**
- **37 steelworks (21 integrated) plus numerous non-core steelmaking activities**
- **Output - 23 million tonnes crude steel**
- **Plan - increase output to 30 million tonnes + by 1975**

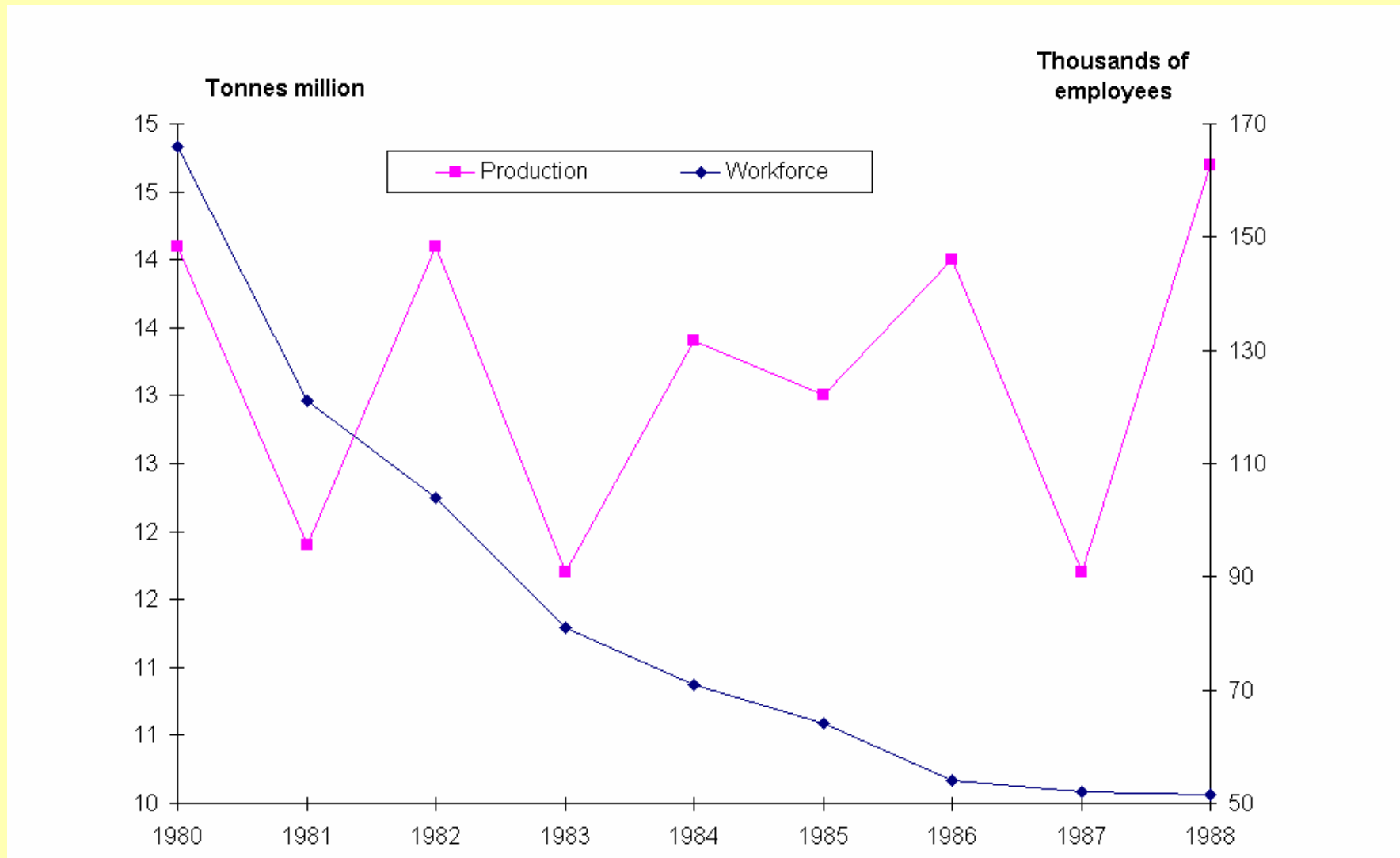
Performance

- **1967 - 1974: strong demand, weak results**
- **1974 - 1980: crisis and new strategy**
- **1981 - 1984: reducing losses**
- **1985 - 1986: return to profit**
- **1987 - 1988: financial self-sufficiency**  **privatisation**

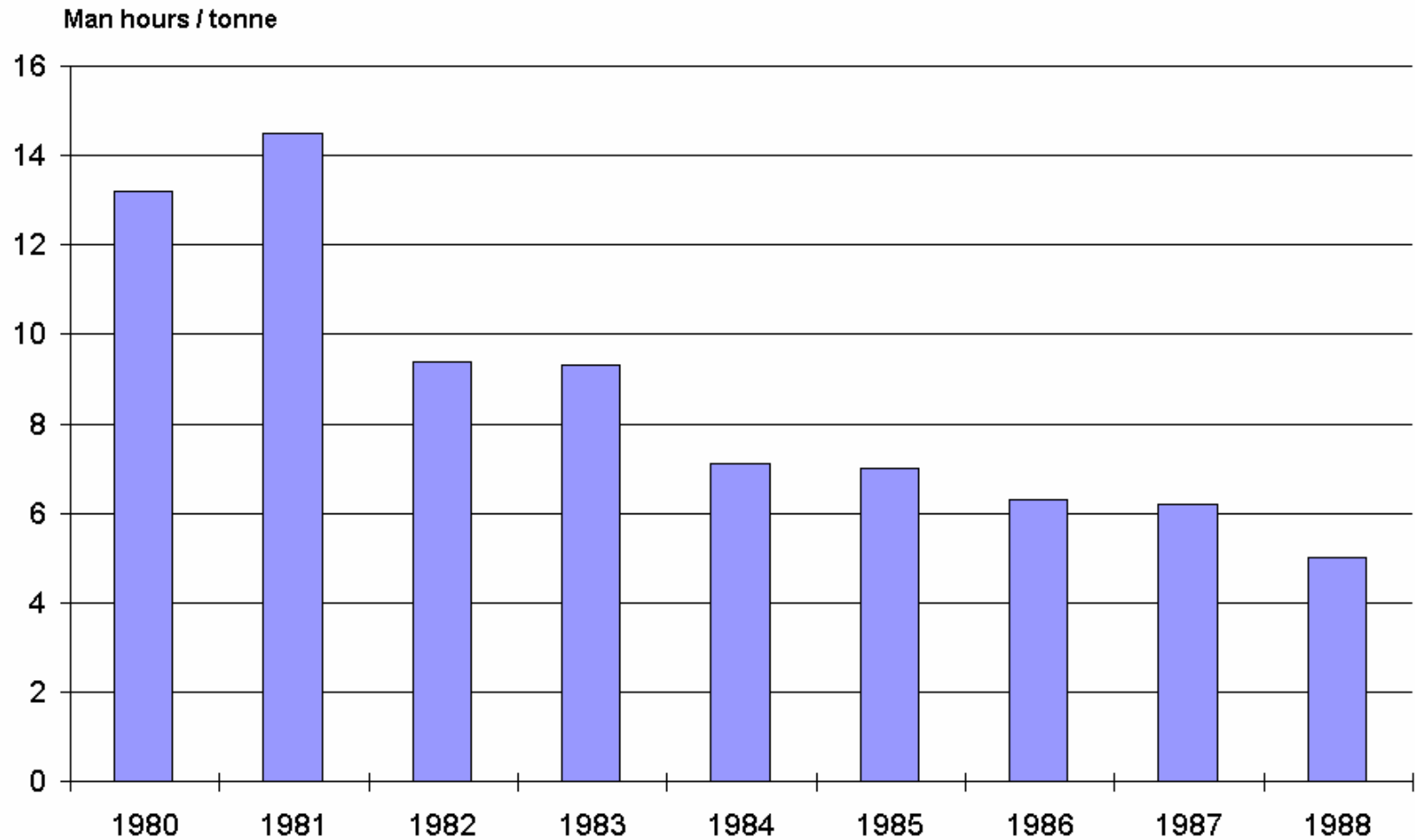
Profitability, 1981 - 1988



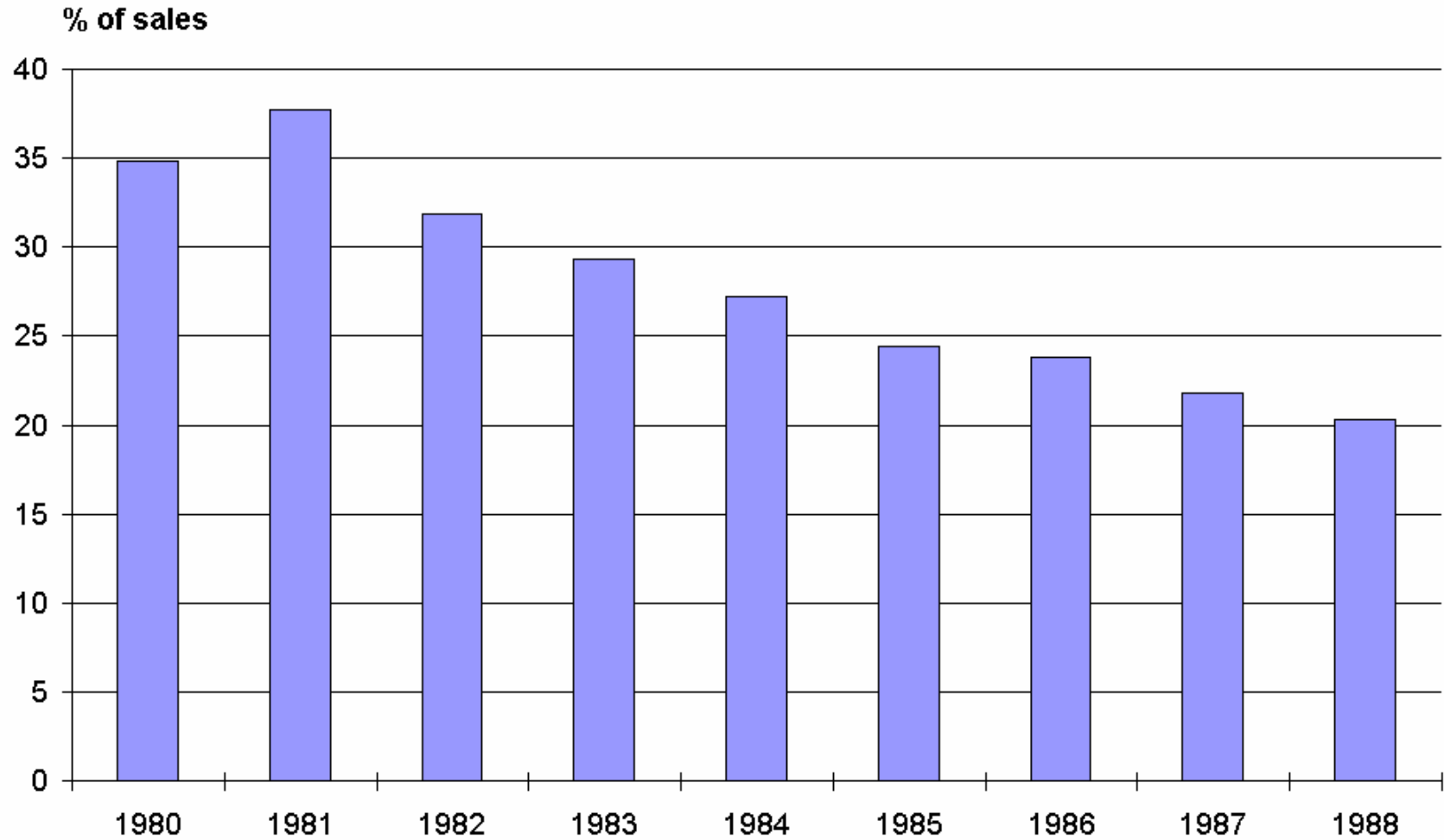
Production and Employment, 1980 - 1988



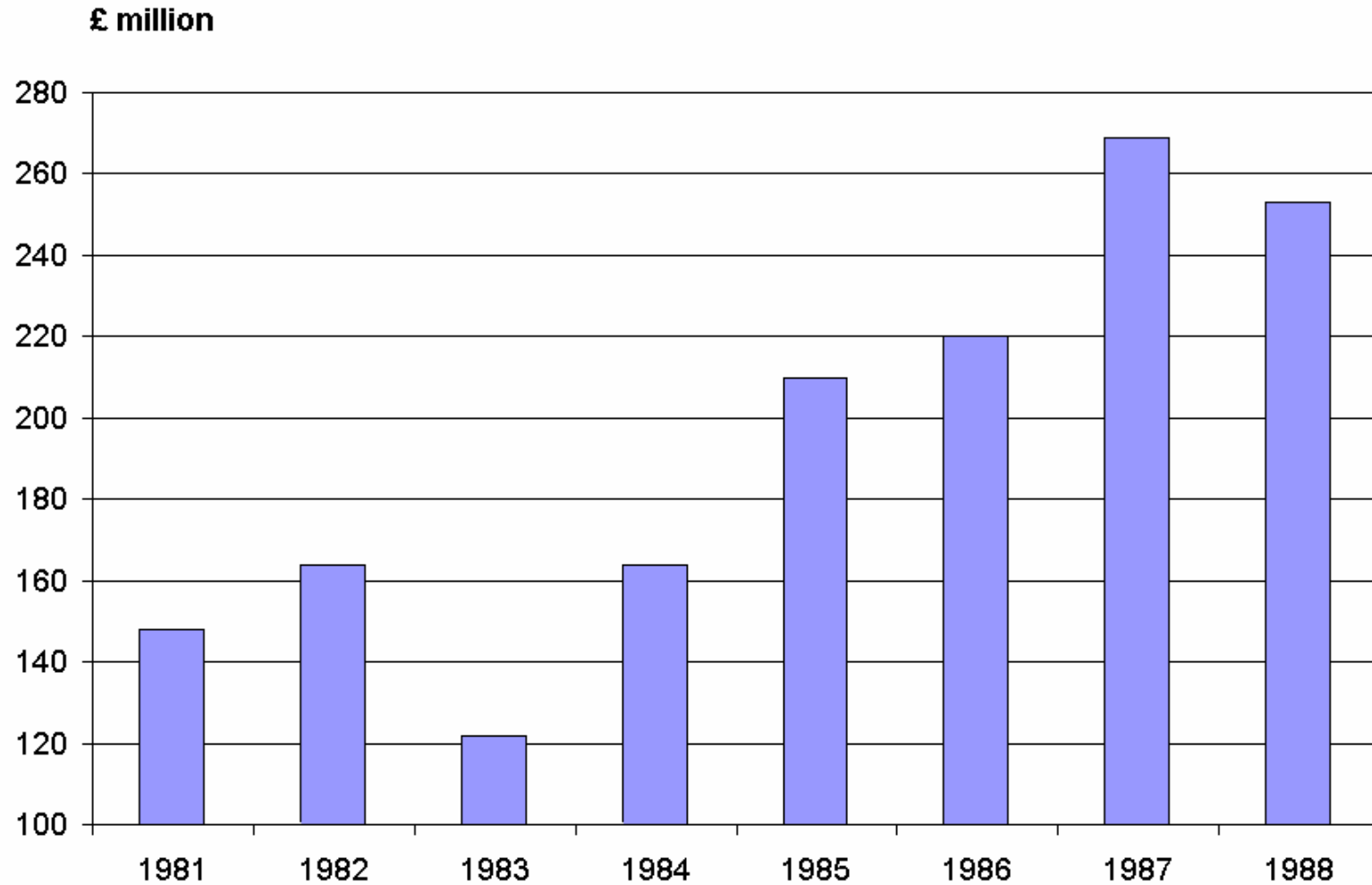
Productivity, 1980 - 1988



Employment Costs, 1980 - 1988



Capital Expenditure, 1980 - 1988



Key Lessons

- Mindset change required
- Profitability *not* production
- Profitability *not* capital projects
- Profitability *not* employment
- Customer *not* production-driven
- Strategic planning ongoing *not* one-off

EU15 Industry: 1985 - 2006

Key Characteristics

Supply-side

- **Profitability**
- **Privatisation**
- **Consolidation**

Demand-side

- **Consolidation**
- **Globalisation**

STEEL RESTRUCTURING - *CENTRAL AND EASTERN EUROPE*

Content

- **Background**
- **Nature of restructuring**
- **Current Status**

1990

- **Return to market economy**
- **Large number State-owned mills**
- **State-owned joint stock companies**
- **‘Privatisation’ (without investment)**
- **Strong domestic markets (import penetration low)**
- **Fragmented industry with sub-optimal units**

1992/93

- **Europe Agreements**
- **Markets opened**
- **Imports increased**
- **Weak balance sheets**
- **Restructuring plans developed**
- **'Privatisation' continued**

Restructuring 1992 - 2000

- **No industry vision**
- **Bottom-up - fragmentation**
- **Plans - but little implementation**
- **Significant financial problems - working and investment capital**
- **Limited State resources - 'dependency' on strategic investors**
- **Asian and Russian crises - exacerbated balance sheet weaknesses**
- **Minimal interest from investors - with some exceptions**

Current Status

- **Mittal Steel dominant:**
 - Czech Republic
 - Poland
 - Romania
 - (Macedonia)

- **Other international steel players:**
 - Celsa (Poland)
 - CMC (Poland)
 - Mittal/Arcelor (Poland)
 - Evrazholding (Czech Republic)
 - Donbass (Hungary and Poland)

VIABILITY ASSESSMENT

Content

European Commission Criteria

EC Criteria

- **Gross operating profit (turnover less cost of sales, distribution and administration) of at least:**
 - **13.5% of steel sales revenue for integrated steel mills**
 - **10% for other steel companies**
- **A minimum return on own capital (profit before tax and interest charges) equivalent to 1.5% of steel sales revenue**

***On condition that the following
“special accounting conditions” are met***

EC Special Accounting Conditions

- **Depreciation is not less than:**
 - **7% of steel sales revenue for integrated steel mills**
 - **5% for other steel companies**
- **Financial charges are not less than 3.5% of steel sales revenue**
- **A 2.5% price-cost squeeze has been applied, whereby:**
 - **justified annual price inflation is decreased by 1.25% for the period of the business plan**
 - **justified annual cost inflation is increased by 1.25% for the period of the business plan**

Market Value

$$\begin{array}{r} \boxed{\text{MV}} \\ = \\ \boxed{\text{NPV of Operations}} \\ + \\ \boxed{\text{Value of non-operating investments}} \\ - \\ \boxed{\text{Debt}} \end{array}$$

NPV of Operations = NPV(Free Cash Flows + Continuing Value)