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DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE

**EFFECTS OF CONSOLIDATION ON THE GLOBAL STEEL MARKET: IMPLICATIONS OF CROSS
BORDER M & A AND INTRA-COMPANY TRADE**

18 May 2007

Presentation by Mr. Chanakya Chaudhary, Tata Steel. Roundtable on consolidation in the world steel industry, 18 May 2007, Istanbul, Turkey.

Anthony de Carvalho, Administrator, Structural Policy Division
Tel: +(33-1) 45 24 93 77, Fax: +(33-1) 44 30 62 63, E-mail: Anthony.decarvalho@oecd.org


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Effects of Consolidation on the Global Steel Market:

Implications of Cross Border M & A


and

Intra-Company Trade


18th May, 2007: Istanbul, Turkey



Global Steel Industry



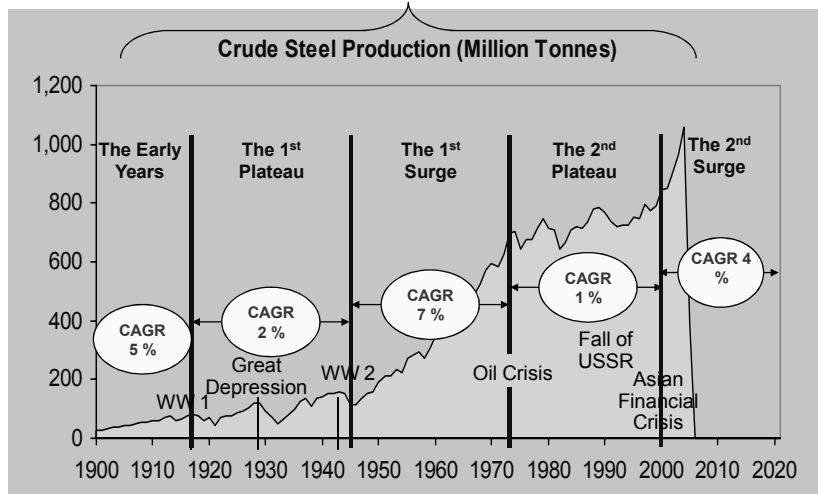
- Steel Demand has entered a new phase of growth and Developing countries will continue to drive the demand.
- Prices are expected to remain healthy which would drive new capacity additions.
- De-integration of Value Chain and Shift in the Primary Steel making to resource rich countries expected to gain momentum.
- Consolidation will continue and may move to a new phase, in line with high supplier and customers consolidation, urge to grow and to attain economies of scale.



Global steel demand has entered into a new phase of robust growth



Steel demand has evolved in phases as a result of series of global events and discontinuities



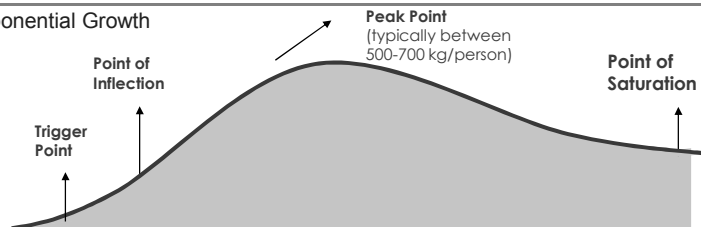
Source : IISI



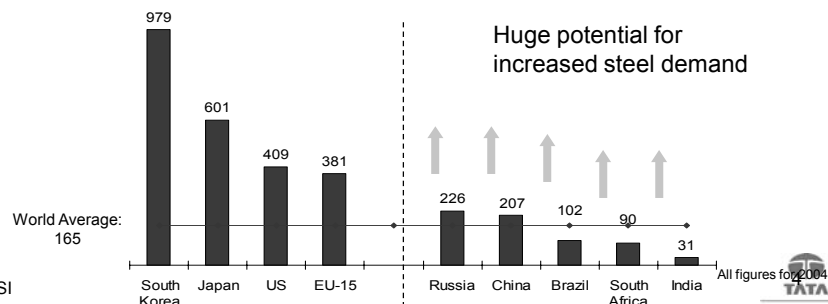
Strong growth expected to continue as Steel demand is low in developing countries



Potential for Exponential Growth



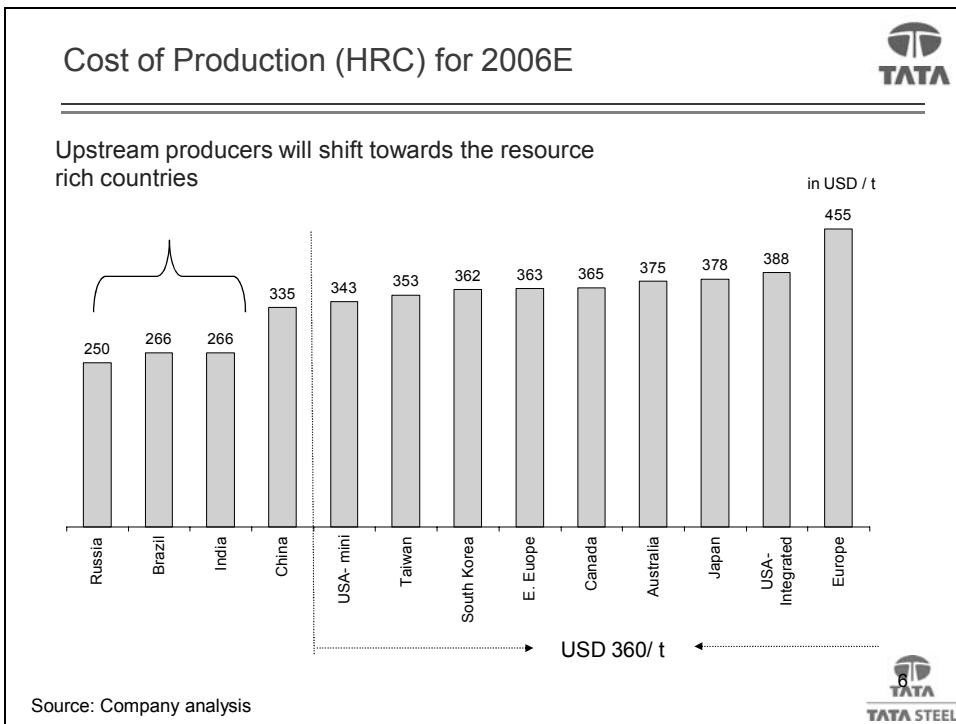
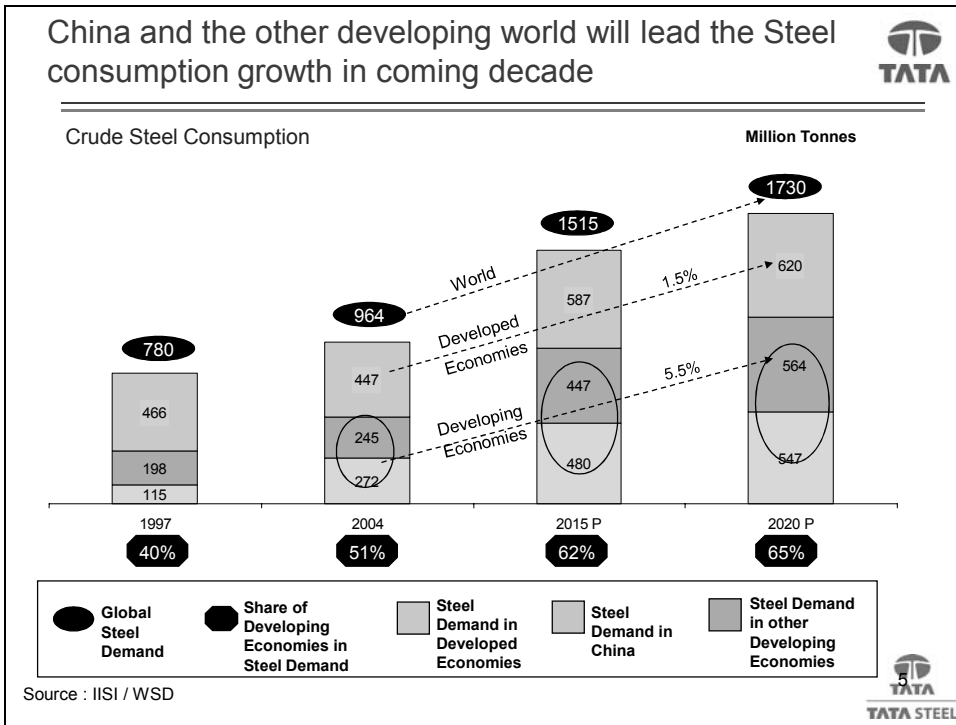
Finished Steel Consumption per Capita (kgs)

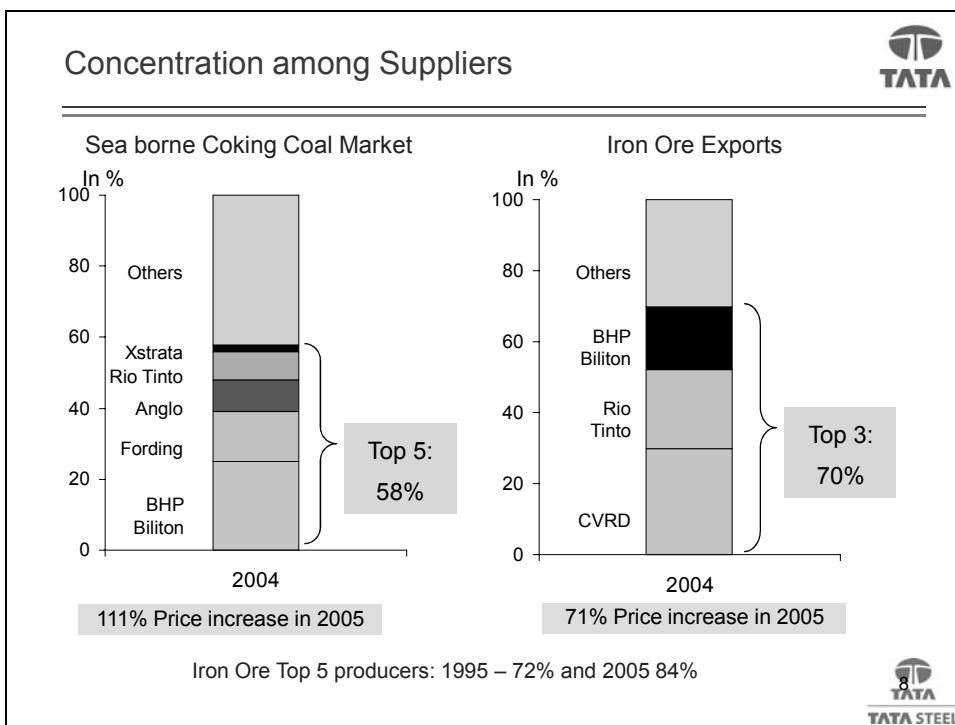
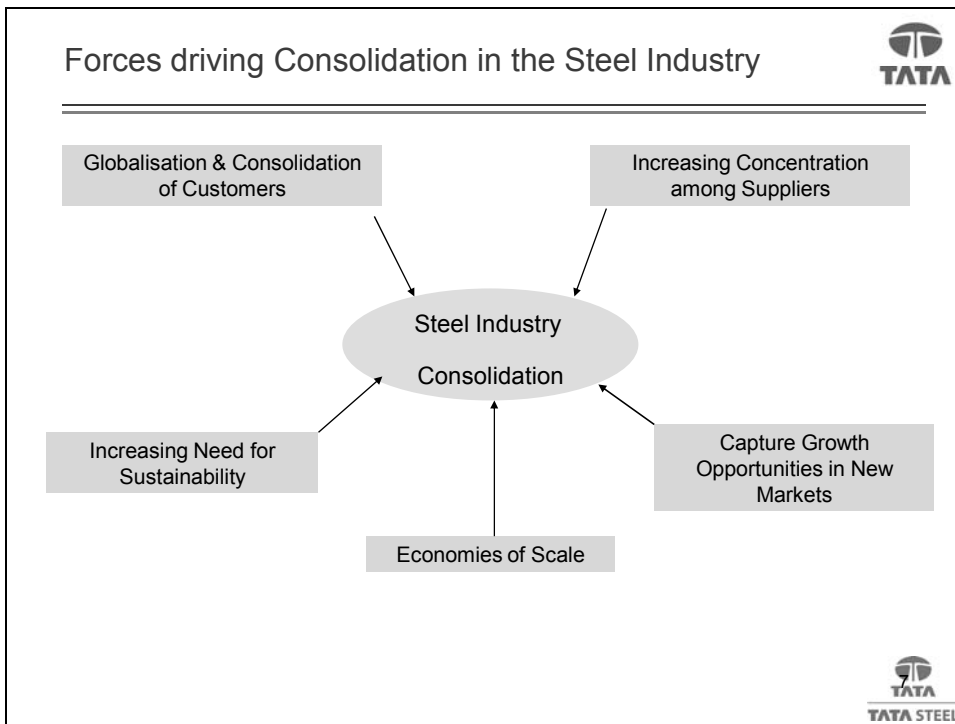


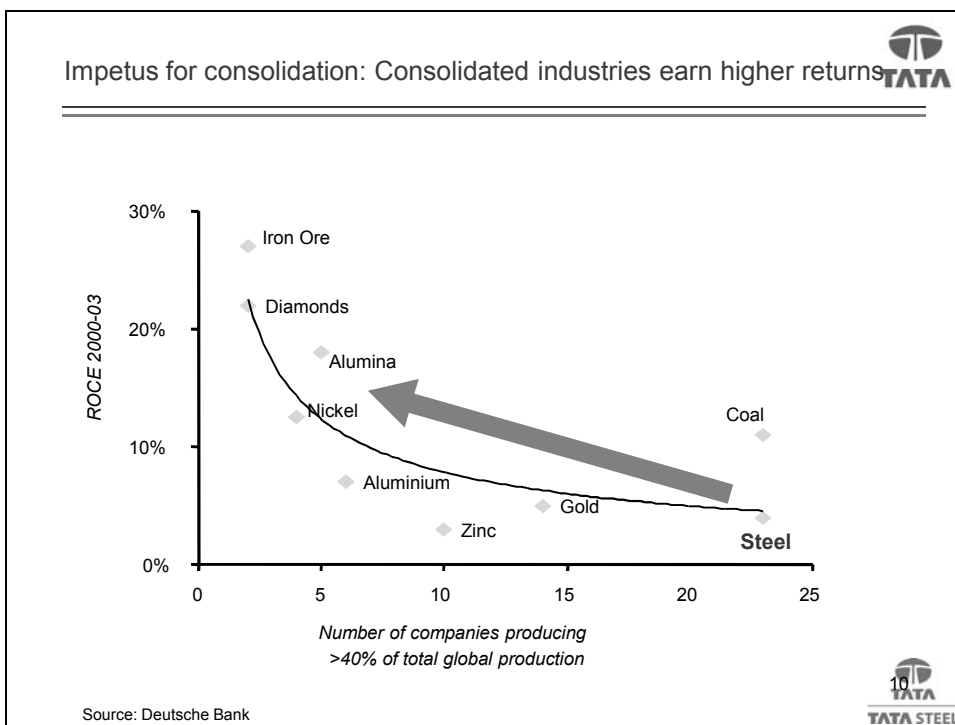
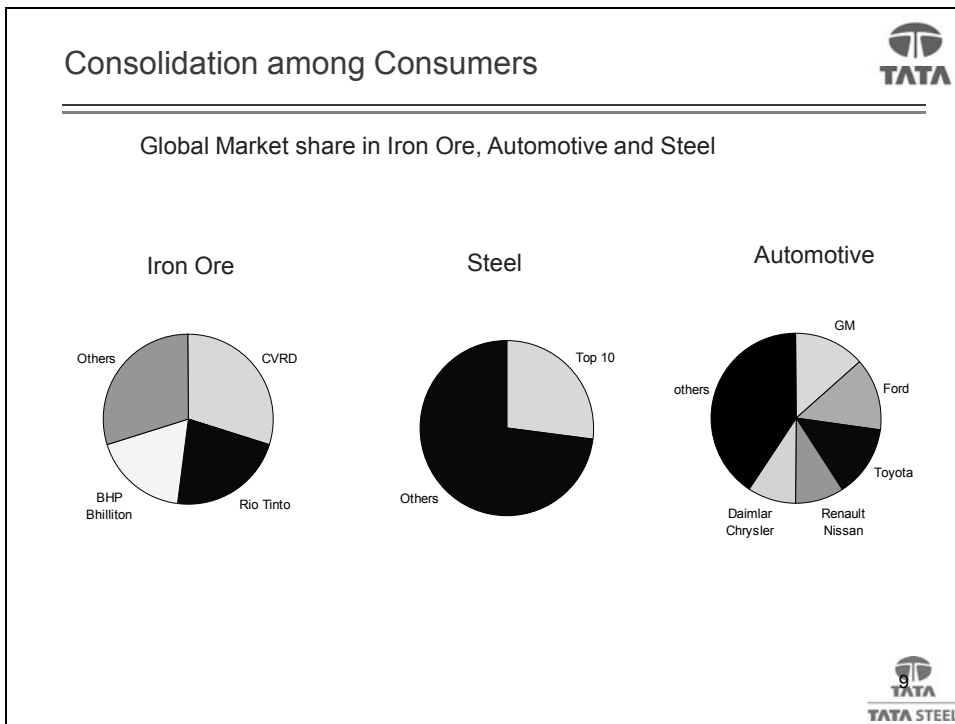
Source : IISI

All figures for 2004





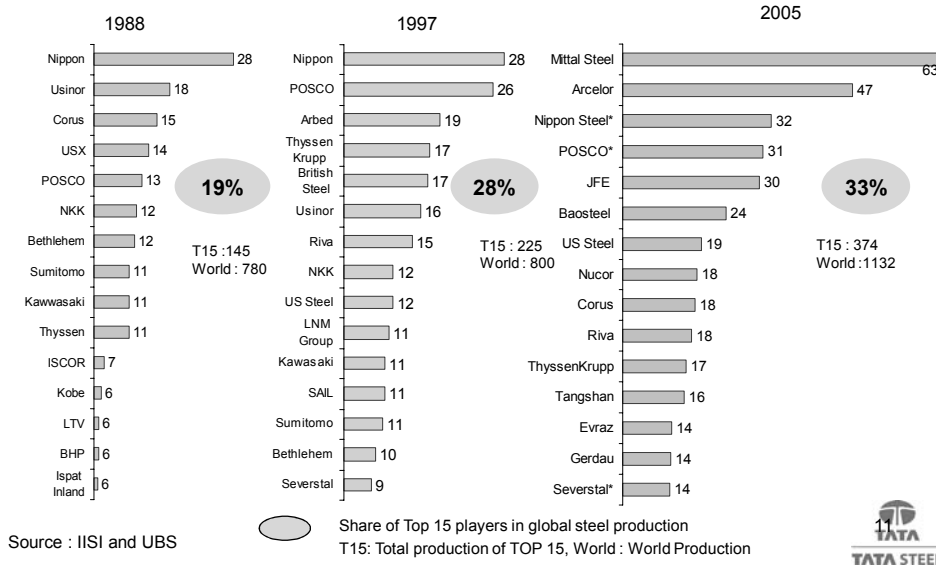




Consolidation in Steel Industry



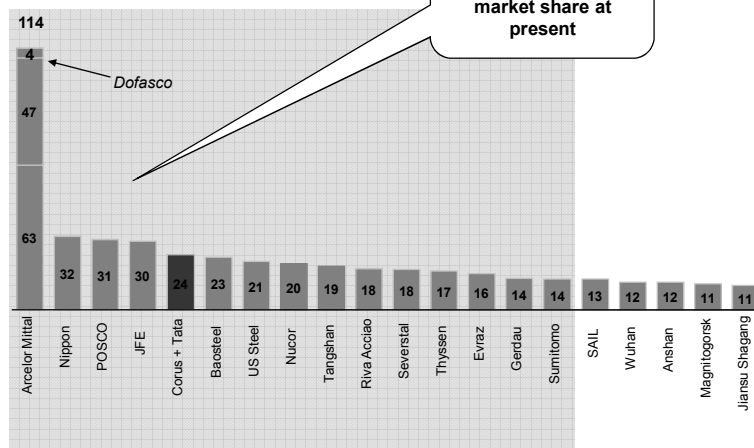
Crude steel production in million tonnes



Consolidation has gained momentum

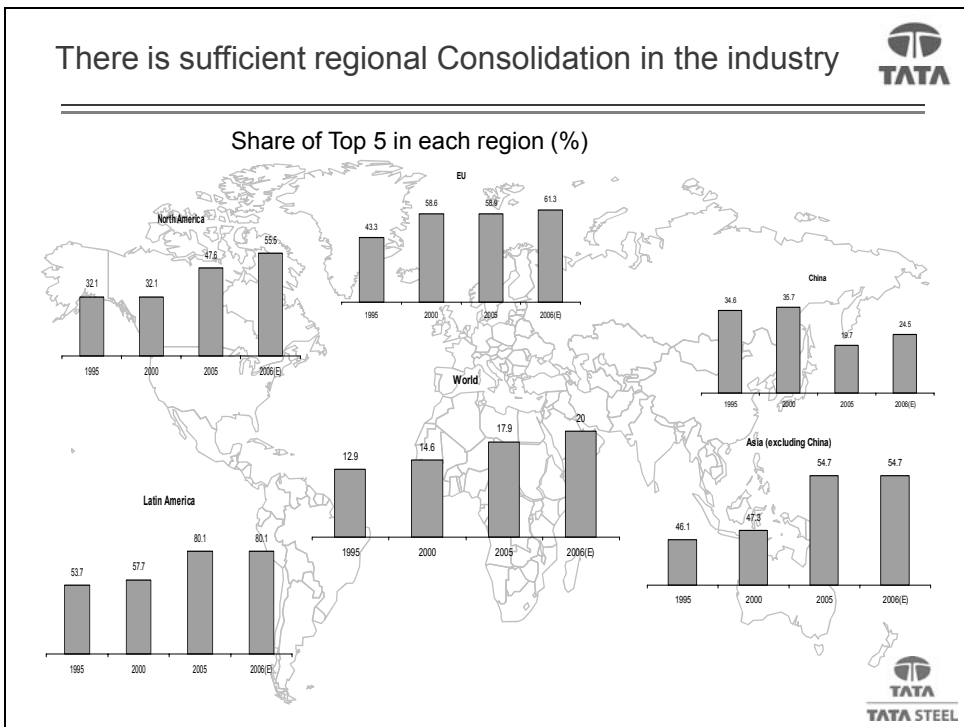



Top 20 largest steel makers (mt)



Source: IISI, Company information






Consolidation Process has to move to the Next Phase 

2002 – 04
Regional
Consolidation

2004 – 05
Increasing
Cross Border
Consolidation

2006 - 10
Formation
of Global
Companies

- Industry remains fragmented and largely regional
 - Medium scale producers
- Large transformational combinations will be faster, more capital efficient and carry less risk than a series of acquisitions
 - Good quality assets becoming increasingly scarce
 - Fierce competitive bidding
 - Continuous need for integration
- First mover advantage will be critical in global steel industry consolidation
- Industry leaders of the future will be global producers with annual capacity of 150-200 million tonnes.



Impact of the Consolidation Process



- Better pricing power
 - There were signs of production controls in parts of Europe and N America in the latter part of 2006.
 - The loss making (though low cost) steel units of the CIS countries have been privatised so there would be better discipline in the market place
- Better control of material costs:
 - Greater purchasing power of raw material
 - Better ability to acquire mining resources
- Moving upstream production to low cost countries for steel making



Impact of the Consolidation Process



- Increased scale leading to value from knowledge
 - Exchange operational knowledge and best practices
 - Lower Capex from sharing of know-how and facilities
 - Faster and cheaper product development
- Better product mix and market mix
 - Presence in different geographies to hedge the risk
 - Cross selling of products
- Improving environmental parameters
 - Better processes from sharing of know-how
 - Lower energy usage
 - Lower carbon emissions



For Successful Consolidation



Structural Consolidation

V/s

Cultural Consolidation

