

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY  
STEEL COMMITTEE**

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**NAFTA - A PERSPECTIVE FROM A NAFTA VIEWPOINT**

18 May 2007

*Presentation by Mr. John Tulloch, IPSCO. Roundtable on consolidation in the world steel industry, 18 May 2007, Istanbul, Turkey.*

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Roundtable on Consolidation in the World Steel Industry

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## Outline

### **A Perspective from a NAFTA Viewpoint**

1. Introductory comments
2. Recent history of consolidation
3. Motivation and enablers
4. Impediments
5. Other issues
6. Key take-aways



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## 1. Introductory Comments

- These comments are coming from a NAFTA perspective
- However, consolidation in the steel industry is increasingly a global issue
  - It is difficult to get a valid perspective from a regional examination
- A stand alone review of steel industry consolidation has risks
  - Steel industry consolidation takes place in an economic environment that extends well beyond the steel sector



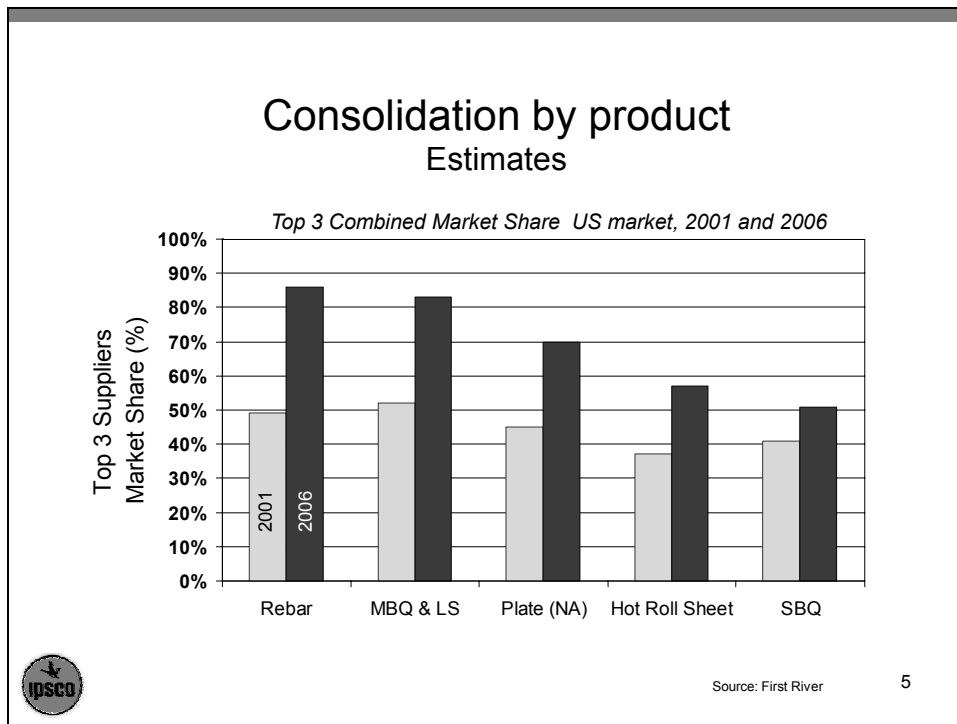
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## 2. Recent history of consolidation

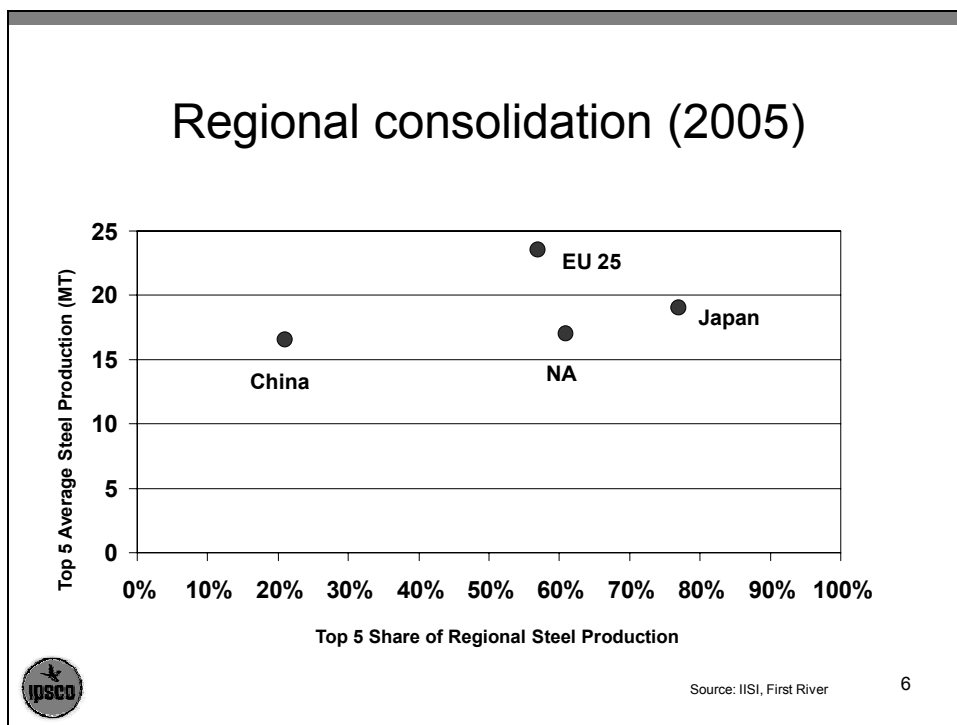
- In recent times it started in response to issues of survival for North American steel producers
  - The need for modernization of the industry
  - Competition from unfair trade flows
  - Economic distress, including legacy costs
  - Closures and asset transactions
- Entry of global consolidators
- Evolved in to a growth opportunity
  - Stronger players picked up distressed firms
- Recent activity based on strategic acquisition of successful businesses, not just assets



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### 3. Motivation and Enablers

- Consolidation based on economic efficiency is seen in NAFTA as a good development
- In addition to the Drivers of Consolidation listed starting on p.10 of the paper DSTI/SU/SC(2007)3, other factors are at work in NAFTA, including:
  - The investment environment
    - Investment markets reward growth in a firm
    - Cash availability
    - Director fiduciary responsibility
    - Short term focus by private equity
  - Consolidation as a defense
  - The cost to build vs buy



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### 4. Impediments

- Cost of acquiring businesses
  - Direct financial metrics
  - Unique strategic imperatives of select buyers
- Can run in to competition law criteria resulting in value destroying remedies
  - Will increasingly open up opportunities for smaller participants, in particular from outside of a given region
- Competition from green field projects with distorted economics
  - May be local or global
  - The race by some to be “in the game”
  - Subsidies



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## 5. Other Issues

- Shifting relative currencies impact valuations by firms from different countries
- This is not an activity that is popular with many large customers
- Increases the complication of country specific trade remedies



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## 5. Key Take Aways

- Generally the industry in the NAFTA region sees consolidation from a positive perspective
- It is an activity that is seen to be increasingly costly and challenging, but necessary to transition to a more sustainable steel industry
- It must take place in the context of a level playing field
- It is an activity that requires a global perspective to evaluate the impact for all stakeholders
- There are viable opportunities for smaller players to be successful



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