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**WORKSHOP ON THE SITUATION IN THE STEEL INDUSTRY IN THE NIS  
RESTRUCTURING OF THE STEEL INDUSTRY IN KAZAKHSTAN**

**Paper presented by Suresh Mathur, Marketing Director, ISPAT KARMET,  
Kazakhstan.**

*The Workshop will be held in Paris on 2-3 November 1999.*

Contact: Mr. Wolfgang Hübner, Head of DoT and Steel Unit, STI; Tel. (33 1) 45 24 91 32;  
Fax: (33 1) 45 24 88 65; Internet: Wolfgang.Hubner@oecd.org

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## **RESTRUCTURING OF THE STEEL INDUSTRY IN KAZAKHSTAN**

Ladies and Gentlemen,

It is a great privilege for me to participate in the Workshop on the “Situation in the Steel Industry in the NIS” organised by OECD and to speak to you as an industry representative from Kazakhstan. I sincerely hope that after the conclusion of this workshop, we come up with concrete proposals to resolve some of the problems faced by the steel industry in the NIS.

In my presentation I shall be sharing with you ISPAT KARMET’s experience – a successful experiment in restructuring the steel industry in Kazakhstan. I would also like to highlight certain areas of concern which all of us need to address.

Development of the steel industry in Kazakhstan commenced from the year 1960 with the establishment of one of the largest single site integrated steel plants in the world. Ispat Karmet the one and only steel plant covers an area of about 5.000 hectares and has a steel making capacity of 6.3 million tonnes per year. The plant has excellent infrastructure facilities and access to Kazakhstan’s abundant supplies of basic raw materials such as coal, iron ore and energy. Ispat Karmet’s extensive product range includes various flat products and coke and chemical products.

Karmet as it was formerly known, was in the past operating like any other steel plant in the former Soviet Union. The emphasis was on quantity instead of quality. It operated at a full capacity in 1989 and used to enjoy subsidised power, coal and railway tariffs. Transactions were primarily on barter basis. After the break up of Soviet Union, rapid deterioration set into the performance of the plant. Domestic consumption became negligible due to lack of demand from military-industrial complexes and lack of investment in infrastructure and heavy machinery. It suffered from outdated energy inefficient technology and over employment. There was no new investment in the mill and acute liquidity problem resulted in poor maintenance. There was urgent need to look for new markets. But the plant was not geared for export markets due to poor product quality and packing, manufacture was only as per GOST standards, absence of customer oriented approach and reputation of an unreliable source.

The problem was compounded due to the plant’s location in a land locked country with extreme climatic conditions, far away from ports and poor communication facilities. Considering the importance of the steel plant in the economy of Kazakhstan and particularly in the Karaganda region, the Government of Kazakhstan took the bold step to restructure the industry by full privatisation. After two failed management contracts, the LNM group was invited to acquire 100 % assets of Karmet in November 1995.

The LNM Group (other flagship company ISPAT INTERNATIONAL) is the 5<sup>th</sup> largest growing steel group in the world. It is the only truly global steel producer with plants in nine countries across four continents. The Group has proven expertise in turning around under-performing assets and pursued the philosophy of value creation by low cost and high quality production.

The LNM Group has been successful in turning around Karmet plant in a relatively short period from the time it was facing the most difficult situation as described before and was virtually on the verge of collapse. Since the acquisition in November 1995, Ispat Karmet has achieved:

- Production recovery
- Process efficiency
- Cost reductions
- Rationalisation of manpower by natural attrition
- Developed and strengthened market base

By following well planned strategy of market development, quality and packing improvement programs, modernisation, product development and human resource development, in a short period, Ispat Karmet penetrated into large number of export markets and thereby expanded and diversified its market base. It is now exporting its products to nearly 65 countries of the world accounting for 97 % of sales. The shipments increased by over 60 % during the period.

A number of new projects were completed in a short period to improve the quality, productivity, environmental standards and to introduce new products. Two pickling lines were modernised and a new state of the art Galvanizing line was commissioned in a record time. These projects were financed jointly by the European Bank of Reconstruction and Development and the IFC. The EBRD and the IFC after extensive due diligence reposed confidence in Ispat Karmet by approving the largest financing package of USD 450 million for modernisation to any private sector enterprise located in the NIS. These strategic actions also helped the company to come out of the steel crisis of 1998 relatively unscathed.

The successful revival of Ispat Karmet has brought about all round prosperity in the surrounding region. It has provided direct and indirect employment and given a boost to the economic activity.

It is pertinent to mention here that steel industry in Kazakhstan i.e. Ispat Karmet is different in many ways, namely:

- It is 100 % privately owned and there is no Government involved in the operation of steel industry.
- It is operating in a free market economy.
- It does not enjoy any kind of Government subsidies and competes worldwide despite high transportation cost because of its quality of management and emphasis on internal efficiency.
- It has western style professional management systems.
- It does not follow barter system. Payments are by financial instruments through banking channel.
- The Company is self sufficient in power and other raw materials and strives to be a lowest cost producer in the world.
- It is responsive to customer needs and moving upwards in quality and service spectrum with continuous improvement and modernisation.

Hence Ispat Karmet is a successful example of a fully privatised independent enterprise with international management culture operating profitably in the world markets.

However, for Ispat Karmet and thereby the steel industry in Kazakhstan to continue to survive in the absence of domestic demand, it needs to have access to global markets. In a world of free market economy such bold and successful experiments of privatisation require encouragement and support of world community rather than trade barriers and protectionist actions. Kazakhstan steel industry is only seeking level playing field, wants to continue to follow international norm and has no intention to be a major player in any of the global markets and would seek to avoid disturbing the market equilibrium.

Thank you for your kind attention.