CONSOLIDATION IN THE WORLD STEEL INDUSTRY

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Consolidation in the global steel industry has accelerated in the last 4-5 years. This trend began with privatization practices, followed by national and regional mergers and acquisitions has gained global dimension with the increasing number of cross-regional mergers during the last few years.
After the year 2000, the pace of consolidation in the global steel industry started to show increasing trend both in terms of value and number of mergers. Largest of these mergers were the formation of Arcelor in 2001 and Arcelor Mittal in 2006 and the most recent one was the Tata-Corus merger.

The main drivers of the consolidation in the steel industry is to become more profitable and having more initiative over steel supply and stabilizing the market.

Turkish steel industry is closely following the merger and acquisition activities in the global steel industry. The tendency in Turkish steel industry is also towards consolidation. Acquisition of Asil Çelik by Diler Group in 2000, İsdemir by Erdemir in 2002, İDÇ by Şahin-Koç Group in 2005 and finally Metaş by Cer Çelik in 2006 are examples to consolidation in Turkish steel industry.
However, all these consolidation activities are at national level. Considering the total crude steel production capacity of Turkey, 18 players for a steel market with 27.6 million tons of total production capacity per year is high and show that the industry is still highly fragmented. Furthermore, it is very early to say that there is consolidation in Turkish steel industry similar to the ones in the western countries.
One of the most important consolidation opportunity between the Turkish and the world steel industry was the privatization of Erdemir. However, the tender for the privatization of Erdemir was won by OYAK, a Turkish group. But there is a close relationship with Erdemir and international steel groups. It is known that Arcelor Mittal is holding more than 15 % Erdemir share; Erdemir and Arcelor Mittal are partners at Turkish sheet and coil producer Borçelik. All these are indications of consolidation tendency at the Turkish steel industry but it is still at its very early stages.

Undoubtedly, consolidation in the global steel industry has been affecting the world steel markets deeply. Considering the pace of production growth in China during the last 6 years, it will not be wrong to say that the current stability in the world steel markets were achieved by consolidation to a great extent. Steel consumers will also benefit from consolidation in steel industry, as steel prices and steel markets become more stable and more foreseeable.
Our main concern about consolidation is that vertical integration might have a negative affect on the functioning of the free trade mechanism in raw materials market. But our observation up to now shows that vertical integration in the steel industry has not brought about such negative affects in the international steel markets yet. We hope the dynamic structure of the world iron and steel industry will not allow such problems arise.

The share of top ten producers in the world reached around 27 % in 2006, from around 25 % in 2000, although world crude steel production increased around 400 million tons or 46 %. During the same period, considering the 120 million tons production capacity of Arcelor Mittal, which is higher than the total production of the following 4 biggest producers, it is clearly seen that consolidation in the steel industry should continue for establishing a more balanced structure in the world steel industry. It is expected that Chinese steel industry policy urging consolidation in its steel industry will also contribute to this process.
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However, the level of consolidation in the world steel industry is not enough and taking the pace of consolidation in steel industry into consideration, we believe that the share of the first ten producers will pass 30% until 2010 and the long term target should be to reach the 50% level.
In general, although consolidation in the world steel industry started in early 2000’s and it has still a long way to go compared to its customers and suppliers, it is possible to say that it has already started to contribute to the stability of the world steel markets. In this view, consolidation process in the world steel industry, will also contribute to the success of activities by OECD on eliminating the state aid in the world steel industry, establishing efficiency and free market mechanism.