

Association Technique de la Sidérurgie Française (ATS)

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"Challenges before the Steel Industry"

Mr Makay Mukherjee

M. Le President, ladies and gentlemen, dear colleagues: it is a great honour for me to be invited to speak to what I understand is the 28th gathering of the ATS.

These past 28 years have seen many changes in the steel industry at both global level and at national level. Many here have played outstanding roles in those changes.

Since the late seventies world steel production has about doubled in volume terms; the value of the production of our industry has increased by more like three times. (1980: 717mmt 2005: 1132 mmt) Both these figures should be a source of great pride for all those gathered here tonight.

However, as you all know, this progress has not been achieved without significant cost. To generalise broadly, in the seventies the steel industry was considered to be on its way out in developed countries; there was an assumption that emerging economies would take up the production relinquished in mature economies and with it create the jobs, and earn the profits, they needed.

Things haven't quite turned out like that; of course, employment in the steel industry in the developed world has declined, as processes have become more efficient. But the increasing efficiency and specialisation in high value-added products have kept the industry not only alive but thriving.

The steel industry today in total is worth US\$800 billion. Six years ago it was worth US\$100 billion. That means in only 7 years we have created US\$700 billion of value. That is a very significant figure and I believe the industry deserves credit for having re-established itself as having an important role to play in today's economy.

Since the beginning of this decade, demand for steel has been strong and growing quickly. This strong growth has been driven principally by the rapid industrialisation of China, but steel consumption in other emerging economies such as Brazil, Russia, India, East Europe and the Middle East is also growing at a strong rate.

Simultaneously the industry has recognised the need for a more sustainable, global business model and we have seen a trend for consolidation firmly established. The result of this is more sustainable operating environment with better management of supply and demand. This helps lessen the impact of a downturn as we have seen this year from the weakening of the US market.

So what will the future bring? Whenever I talk to media they always ask me about the impact of China. Will growth slow? What impact will this have? While the Chinese growth rate is expected to slow down over the next 10 years, we are also beginning to see a slowdown in the growth of Chinese production.

The Chinese steel industry accounts for 1/3 of the total steel production but is extremely fragmented among hundreds of steel companies. We are all concerned about the threat of overcapacity in China, and there have been signs recently of China increasing its exports to Europe and the US. This cannot be allowed to continue or it may have a destabilising effect on the European and US market.

It is vital that we continue our productive dialogue with the Chinese authorities, at both company and EU level to make progress on this and secure the long term prosperity of our industry. We must recognize that these economies are here to stay. We need to identify the best ways to work together for our mutual benefit. This is where the challenge lies.

Countries and businesses need to recognise that if they want to do business on a global level, they need to act in line with global standards. Globalisation can only be successful if it is carried out at a level playing field. Unfair advantages which risk economic instability must not be allowed to develop. Competition is good, but it must be fair. Regulators and governments have an important role to play in ensuring this balance is maintained.

It is the dynamics underlying the steel industry's recent performance which give us confidence that over the next 10 years the global steel market should continue to grow at an average rate of 3% - 5%. And it is against that background that ArcelorMittal recently announced our plans to increase shipments by 20% by 2012 through organic growth alone.

By adapting to changing conditions by improving efficiency and above all by consolidating, the global steel industry has never been in better shape.

Frankly, it's just as well we are in good shape because having survived one set of challenges, along come another set.

Now I can't say this has come as a great bolt for the blue for anyone in the steel industry – but of course environmental issues are becoming more important for us with every day that passes.

The issue of climate change caused by human activity has rapidly become the key question of our time, and how we address it will affect every aspect of human life – political, economic, cultural and personal.

This is particularly apposite today with the imminent conclusion of the United Nations Conference on Climate Change in Bali. [NB this conference is due to end on December 14th. It will probably be apparent by the 13th whether substantial progress has been made; on the other hand there is a chance that the result will be a cliff-hanger. Mr Mukherjee will have to mention Bali in his speech and this section will need to be updated almost at the last minute.]

As you are aware, for every tonne of primary steel produced there are carbon dioxide emissions of about one and a half tonnes. Some processes and installations may differ, but the basic fact is that steel is relatively carbon-intensive.

Of course, our product can be recycled almost infinitely, and as an industry I don't think we have made enough of this great positive quality of steel.

But the fact remains that if the world wants steel – and at the moment it wants it in ever-increasing quantities – it will have to find a way of dealing with the carbon emissions. Not just that, the world may have to start prioritising its carbon-producing activities.

This then presents us with a double challenge: we must first do all we can to reduce our carbon emissions; we must also remind the world of the value of the steel we produce and the vital uses to which it is put.

Regarding reducing emissions, many of you here tonight will be intimately involved in research programmes to achieve this end.

We must share best practice across and between companies, and across and between countries. Exactly how we do that in a fair matter is a topic for another day, but it is clear that it is pointless to reduce steel's carbon footprint in France if on the other side of the world the same product is being made with no targets on emissions, never mind regulation.

We must also investigate new technologies such as carbon capture and storage. You will all be aware of the European Ultra Low CO₂ Steelmaking or ULCOS programme.

As I've suggested, however successful we are in these vital tasks, there will be no steel without fire, so to speak.

So as an industry we need to tell people how much their lives today depend on steel, and also how much many of the solutions to climate change depend on steel.

In the latter case I'm thinking of wind turbines, solar energy installations and wave and tidal schemes; this is not to mention the very basic steel contribution to every possible type of energy-saving transport schemes such as railways.

We also need to stress the advantages in construction of steel over competing materials such as concrete. Some of our recent innovations in construction beams, for example, can allow one extra floor to be built for every ten in a tall building.

We need to improve as an industry in our delivery of combined product and service solutions which offer competitive solutions to our clients.

As I've indicated, one of the most important trends in the industry in recent years has been consolidation as globalisation has spread through the world economy.

My company, ArcelorMittal is a shining example – perhaps the best example – of this process and we're very proud of what we've achieved.

However, as we introduce ever-higher environmental standards in our plants we must make sure that there is movement towards a level playing field, so that our gains are not literally burned away in countries not subject to the same degree of regulation.

Customers' increasing demand for steel of course means that we producers have increasing demand for raw materials. This is sometimes referred to as the "Resource Crunch" and there seems little doubt that it's not going to go away.

That is why at ArcelorMittal we are trying to increase our self-sufficiency in iron ore from current levels of about 45% to 75% within a few years.

There are many reasons why it makes sense for a steel company to own its own iron ore, and not all of them are to do with price. Security of supply and the ability to plan are very important.

But there's no getting away from cost pressures, and in a world where increasing demand is chasing finite resources, those pressures can only become more severe.

That's why at this stage the world economy simply doesn't need any other factors forcing up raw materials costs.

Of course I'm referring here to the proposed alliance between BHP and Rio Tinto.

The IISI has said clearly that this merger would not be in the public interest and should not be allowed to proceed. At ArcelorMittal we agree that at the very least the competition authorities in every relevant jurisdiction should take a very close look at the proposed combination in terms of how it will affect both steel consumers and the general public.

There is another resource which is perhaps just as vital as iron ore for what we do, and maintaining a supply of it represents more and more of a challenge in these changing times.

I'm talking about human talent at every level of our companies, which we must learn to attract and retain if we are to survive.

Let's not kid ourselves; the steel industry hasn't got the greatest public image, and may well not be the first career choice for graduates and artisans. We need to change that.

Fortunately, changes already under way in the industry are a help in this. The shifts in technology over the past decades mean we're more and more of a high-tech business. Workers at all levels have to be trained in sophisticated technology.

The view of the steel industry as one depending just on hammers and spanners is completely outdated: we all now have to deal with computers and very clever process tools to make our steel. Getting everyone up to speed in this area is a challenge indeed.

I've spoken already about the undesirability of a tie-up between two of the world's three biggest suppliers of sea borne iron ore.

But we mustn't concentrate just on what might go wrong in the future; there's plenty going wrong now. Because of the lead times required for major infrastructure investments, our industry faces serious or potentially serious bottlenecks all over the world.

These can be the lack of a road or rail link to move coal or ore; inadequate port and handling facilities at either end of the sea borne journey of our raw materials; and inadequate infrastructure surrounding our plants. In some cases, ArcelorMittal is literally building its own infrastructure, and that includes schools and hospitals.

[Suitable examples may be given as necessary]

I've come this far in my speech without really speaking about the progress we at ArcelorMittal have made in meeting the challenges we've faced in the past year or so.

As you know, ArcelorMittal is the world's number one steel company, with 320,000 employees in more than 60 countries.

We are the leader in all major global markets, including automotive, construction, household appliances and packaging, with leading R&D and technology, as well as sizeable captive supplies of raw materials and outstanding distribution networks.

We have an industrial presence in 27 European, Asian, African and American countries which gives us exposure to all the key steel markets, from emerging to mature. We are looking to develop our positions in the high-growth Chinese and Indian markets.

Our key pro forma financials for 2006 show combined revenues of USD 88.6 billions, with a crude steel production of 118 million tonnes, representing around 10 per cent of world steel output.

Our most recent results, announced last month, showed for the first three quarters of this year EBITDA was \$14.6 billion, up 30% year-on-year

We're on track to deliver full year EBITDA of \$19.2-\$19.4 billion compared with pro forma 2006 full year EBITDA of \$15.3 billion.

We take satisfaction from meeting the challenges we have encountered thus far; we know that future challenges will be no easier to overcome.

To meet them we need to work better as a company, but also reach out to all our stakeholders and enlist them in achieving our corporate goal.

It's not a modest one: we aim to do nothing less than Transform Tomorrow.