

Mittal bags Arcelor to create steel "Titan"

- By Steelworld Correspondent

Ending months of hostility, Arcelor SA announced acceptance of India-born L N Mittal group's takeover bid, improved by 10% to 25.9 billion euros (\$32.4 billion), a move that would create the world's largest steel entity. Announcing the decision, Arcelor Chairman Joseph Kinsch told reporters that his Board has unanimously backed a new takeover offer from Mittal Steel. "We concluded that Mittal Steel's was a better offer than that of Severstal," he said.

The decision preferring Mittal to Russian steel giant Severstal, with whom Arcelor had entered into a strategic tie-up perceived as a last ditch effort to thwart Mittal's bid, was taken after a marathon meeting of the Board at the company's headquarters. The merged entity would be called Arcelor Mittal, Bloomberg quoted Kinsch as saying. He said the Board will recommend the new offer of Mittal Steel, which would now be placed before shareholders for approval.

Mittal calls it a success

The merger created the world's largest steelmaker, to be called Arcelor-Mittal, with annual production of more than 110 million tons. The deal raises questions about whether Mittal will sell its steel mill at Sparrows Point to assuage regulators' antitrust concerns. After a five-month battle, Arcelor surrendered to Mittal's advances last month and agreed to a merger. To avoid antitrust issues, Mittal had promised to sell Canadian steelmaker Dofasco, which provides high-grade sheet metal to the auto industry, to German-owned ThyssenKrupp AG. However, in one of a series of defensive moves to thwart Mittal's takeover bid, Arcelor transferred its Dofasco unit to a Dutch foundation to make a sale difficult. Despite their merger agreement, Arcelor officials still refuse to approve Dofasco's sale. Arcelor will hold a majority of seats on the new company's board and will have considerable say in decision-making. If

Mittal is unable to sell Dofasco, Justice Department officials said, Mittal must divest itself of "alternative assets," according to the agreement reached May 12. Two weeks later, representatives from ThyssenKrupp toured Sparrows Point, plant officials confirmed.

But whether Sparrows Point is put up for sale depends on what the Justice



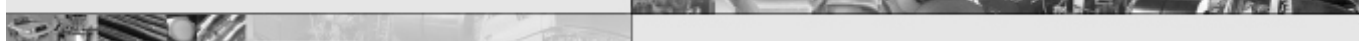
Department considers a monopoly, said steel consultant Charles Bradford of New York City-based Bradford Research Inc. If the government is concerned about a concentration in steel production for the automotive industry, then Mittal probably wouldn't offer Sparrows Point as an alternative, he said. Mittal's plant in East Chicago, Ind., would be a more likely candidate, Bradford said, because it makes high-grade steel for the auto industry. However, if the government is focused on tin production, then Sparrows Point or its sister plant in Weirton, W.Va., might be options, he said, because Mittal and U.S. Steel produce nearly all of the tin in the United States. But they wouldn't be attractive trades for Dofasco, which is bigger and highly profitable, Bradford said. Then again, he added, Mittal may sell assets to pay for its merger with Arcelor.

While the combined company will control 10 percent of the world's steel production, it's not a monopoly by any means, said steel consultant John Anton. Geographically, the companies don't overlap; Mittal doesn't have a presence in Europe, where Arcelor is concentrated. "It's not going to shake the

world," said Anton, of Global Insight in Washington. "It's more of a long-term threat." Neither Anton or Bradford could say how soon Arcelor-Mittal will make a decision about Dofasco or other plants. About 150 of the plant's nearly 2,500 workers took voluntary layoffs of up to a month. They could be called back if needed. Mittal officials estimate the outage will cost the company 250,000 tons of iron-making, nearly a month's work. The loss should be covered by insurance.

Domestic steel firms to pick Mittal-Arcelor cue

The domestic steel industry is upbeat about the Mittal Steel-Arcelor merger finally going through and is looking at taking a cue from the consolidation move. Sajjan Jindal, vice chairman and managing director, Jindal South West Steel, said consolidation would go on. He said Jindal South West was also looking at the international market for opportunities though nothing had materialised, as yet. "In India, it's difficult but we are still looking at it," said Jindal. Jindal also felt that ultimately steel capacity worldwide should be controlled by 4-5 players as in the case of aluminium, copper and cement. "It will increase shareholder value, which has suffered all these years. Consolidation will make the industry more organised and disciplined," explained Jindal. Jindal's view was echoed by other industry representatives as well. Vinod Garg, executive director-marketing, Ispat Industries said, more consolidation meant more stability and control over demand and supply. Garg felt that 50 per cent of world steel capacity or around 500 million tonne should be controlled by around 10 players. On home turf, Garg did not appear to be hopeful and said that there was not much scope for consolidation but did not rule it out either. Vikrant Gujral, chief executive officer, Jindal Steel & Power said, the consolidation meant control over raw material, and tremendous advantage in terms of marketing, and purchasing power.



Tata Steel's pact with Arcelor intact

Tata Steel will have a tenuous attachment with Mittal Steel through its technical agreement with Arcelor. T Mukherjee, deputy managing director Tata Steel, said, the agreement with Arcelor stands. The agreement pertains to coated sheets for automobiles. "The technological agreement with Arcelor, to the best of our understanding, will be transferred to the new merged entity," he said. The pact with Arcelor will last another five years. The contours of the arrangement extends to marketing of extragal, a special quality automotive steel, with Arcelor proprietary technology in markets where Arcelor has a stronghold. Tata Steel exports around 30,000 tonne extragal to Europe. Mukherjee further said all commitments made by Arcelor would be honoured.

Tata Steel can produce around 3,00,000 tonne of extragal. However, the extragal market in India is yet to pick up. The auto sector is important to Tata Steel since the company is reorienting its product mix to move up the value chain. The company's cold rolled (auto) market share increased from 35 per cent in 2005 to 37 per cent in 2006 while supplies to the auto sector increased from 6,15,000 tonne to 6,64,000 tonne. The agreement with Arcelor was signed in 2002. The automotive steel technology co-operation agreement was signed between Nippon Steel

Joint working

As per the agreement, the companies work jointly on technical developments, to meet the needs of the Indian automotive steel market and was aimed at providing the Indian automotive industry with effective total

steel solutions. The subjects covered in the agreement include joint activities required for a wider acceptance of high tensile and galvanised steel sheets amongst the automotive customers in India keeping the requirements of safety, environment, and car weight. The tripartite agreement happened at a time when strategic alliances were taking place in the steel industry at global level. The companies felt that there were increasing consolidation and alliances happening in the global automotive industry and in order to serve the needs of the industry, it was necessary that steel companies also come together in strategic alliances. It was for the first time an Indian company had entered into a strategic alliance with two of the leading producers of automotive steel in the world.

