Debts and rising costs drag East European steel back to the Seventies
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Thyssen Krupp to enter stock exchange

Thyssen Krupp AG has launched a major strategic programme which will see business divisions reduce to six core businesses with Thyssen Krupp Steel being listed on the stock exchange next year.

Total investment over the next three years will reach a volume of some £4.1bn (€5.8bn).

The Thyssen Krupp parent company board has made clear that it does not regard the simple bringing together of Thyssen and Krupp as their sole response to the strategic challenges of the global marketplace, it is merely the first step.

A total of 23 business divisions will be reduced to five, making six altogether with the steel sector. The company has total turnover of some £21.7bn (€31bn) and a group workforce of 180 000.

Weaknesses include a high degree of complexity and insufficient transparency viewed from outside the company, highly cyclical financial results and insufficient profitability in some areas together with inadequate growth potential in segments of the operation.

The board says that Thyssen Krupp is to be seen as a mixed industrial concern with the emphasis on steel production. Six measures have been agreed by the board which include a streamlining of the organisation, a refocusing of business sectors, a strengthening of services to clients along with modernising of accounting procedures and a stock options programme. The aim of the strategy in the case of Thyssen Krupp Steel is to strengthen the company.

A total of 25–35% of the capital will be made available to the market in 2000, generating more capital for both the steel sector and the group.

The board says that the steel company is functioning in a dynamically changing marketplace and despite considerable changes in recent years in the European steel industry to which both Thyssen and Krupp have contributed, the market remains excessively fragmented.

In contrast to the fragmented steel market, there is increasing concentration and internationalisation among both suppliers of raw materials and energy and also among the client industries. Against this background, the board forecasts further steel sector mergers, cooperation agreements and alliances.

One of the aims of a market listing for Thyssen Krupp Steel is to create the conditions to play an active role in this process.

The steel sector of the group will effectively be decoupled from the five future core businesses of ThyssenKrupp and this will enable these businesses to be perceived and evaluated more clearly.

The Thyssen Krupp works council has criticised the planned re-organisation of the company.

The joint chairmen of the council, Paul Ring and Dieter Kroll, have said that the sell-off of areas of the group's business must be carried out slowly and without jeopardising jobs and the intentions of purchasers should be carefully investigated.

Maxhütte to cut 200 jobs by installing EAF

Jürgen Grossmann, the future owner of the Bavarian steelmaker, Maxhütte, has said he will cut around 200 jobs at the plant because the re-equipping of the plant with an electric furnace will make the existing blast furnace redundant.

The unit will use recycled scrap. The organisation of the company will also be streamlined.

Mr Grossmann added that the recovery of the Maxhütte would take time and require the full support of the workforce who realised this new beginning was their last chance.

The incorporation of the plant into Grossmann's north German Georgsmarienhütten group is expected to improve utilisation of its steel smelting capacity while a rolling line with 80 jobs attached will be transferred from Lower Saxony to Maxhütte's site at Sulzbach-Rosenberg.

PUBLICATIONS

ISSB growth strategies

UK's Iron & Steel Statistics Bureau (ISSB) has released a report which reviews 50 of the western world's leading steel producers and describes the measures they are taking to remain competitive. The report examines mergers and acquisitions, internationalisation, restructuring and new markets.

The report considers what Asian manufacturers are investing in, how strong the European companies are and what strategic initiatives are being undertaken by steelmakers in the Americas.

The report is written by business writer Mark Payne and offers a quick reference to the strategic developments of the industry.

Publications, ISSB Ltd, Millbank Tower, 21/24 Millbank, London SW1P 4QP, UK. Tel (0) 171 343 3933 Fax (0) 171 343 3903 web **http://www.issb.co.uk**

Improving energy efficiency through gas

One of the biggest problems facing the steel industry is the need to improve energy efficiency in order to cut costs under ever tighter environmental constraints.

To help companies achieve this, the UK's privatised gas distribution company, Transco has produced the Steel Industry Gas Using Guide which features the results of gas-fired technology studies taken at UK steel companies.

The UK steel industry accounts for around 5% of national energy consumption but 70% of that energy is coal-based, meaning the industry creates a significant amount of pollution.

Natural gas is the cleanest of carbon fuels and is seen as an ideal replacement for coal as a fuel since it contains lower levels of carbon monoxide, traces of sulphur and produces a far lower amount of carbon dioxide per unit of energy released.

Almost 3000 UK companies are already using gas for steel processing and the Transco guide highlights methods to improve operating efficiency.

The guide contains the first results of the Low NOx Burner Project, the gas-fired steel reheating and heat furnace treatment furnaces aimed at reducing the oxides of nitrogen emissions. Results of tests using natural gas as a direct replacement for propane in oxy/gas flame cutters and in a bloom reheating project with regenerative burners, are also provided.

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COMMENT

Debts and rising costs drag East European steel back to the Seventies

The past few months have been a difficult time for a number of East European steel companies. The recent weakness of international markets highlighted the problems of burgeoning debt and declining cost competitiveness. The situation is reminiscent of the status of the UK steel sector in the late seventies and early eighties.

Management reticence to undertake structural changes has been reversed. It has been clear for some time that most of the main steel enterprises failed to grasp the formidable task of reorganisation. This is the main reason why Western steel companies steered clear of making offers when the East European states attempted to privatise the businesses. It has been the traders which, so far, have acquired most of the steel manufacturers in the region. These are mainly small mills requiring only modest investment and with less severe overmanning problems.

Several steelmakers have had to be rescued from bankruptcy by their governments in recent months to enable restructuring programmes to be undertaken. The Czech state has bailed out Vitkovice, the plate and tube manufacturer. It is reported that the company had debts of $150 million and the 13 000 employees were owed wages in September. The tubemaking part of the company is to be sold.

The government of Slovakia has also backed a deal to support VSZ, the financially struggling strip mill enterprise. All of the non-core activities are being divested to recover some of the debts. At the end of August, losses were said to be $50M (€43M). The state needs to underpin this company because it produces 10% of the country's GDP.

Huta Sendzimir, the Polish strip mill, plans to cut the workforce by 45%, a reduction of 7500 employees. Net losses this year are expected to be $24.5M (€21M). This is a dramatic move for an enterprise which has a virtual monopoly of supply in the country.

Sidex, Romania's largest steelmaker, is to reduce the number of employees by 50% as a prelude to privatisation. This decision will affect 15 000 workers at the company which produces both flat and long products. The action has been prompted by criticism from all potential buyers. Also in Romania, Siderca Calarasi has been forced to halt production in a dispute over a huge $100M (€85.7M) debt held by the State Bank. The proposed sale of the railmaking part of the company to VA Stahl has been postponed.

It is not only the above companies which have a predicament. The Bulgarian bar and plate producer, Stomana, is insolvent and a court has appointed administrators to run the enterprise. They are hoping to lease the plant to retain employment prior to privatisation. The Czech steelmaker, Zelezarny Hradek, has stopped production at the Poldi works which manufactured special steel long products. Plants in Croatia and Yugoslavia are also facing severe difficulties.

The steelmakers in the rest of the world should not gloat at the current problems in the East European steel sector. The resistance to change from the steel industries in almost every East European country is now being overcome and realism is, at last, prevailing. The steel enterprises will come out of this period of restructuring much leaner and fitter. They will prove to be extremely competitive in global markets in the early part of the next decade.

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