British Steel and Hoogovens merge

By Simon Wheelan
23 June 1999

British Steel and Dutch rival Koninklijke Hoogovens have announced a $2.7 billion merger, forming the world's third largest steel producer. British Steel will represent 61.7 percent and Hoogovens 38.3 percent of the merged group, which will initially be called BSKH. The new company is to be Europe's biggest steel company. Its headquarters will be in London and shares will be listed on the New York, Amsterdam and London stock exchanges, with a market capitalisation of $4.7 billion and notch up sales worth $15.1 billion.

BSKH announced it would shed jobs and implement savings of almost $120 million in overhead costs, purchases and logistics. White-collar employees in administration will probably be hardest hit, as management and sales seek to avoid duplicate positions.

BSKH will have an initial combined work force of 70,000, of which British Steel contributes 50,000. But British Steel is currently culling some 12,000 to 14,000 jobs before 2001. Trade unions fear that the deal will lead to the closure of the Llanwern steelworks in South Wales with the loss of thousands of steelworkers' jobs.

John Bryant, British Steel's chief executive, said there were "no guarantees" for any plant either in the UK or the Netherlands. Regardless of short-term developments, the essential goal of such mergers is to consolidate operations and achieve economies of scale. In the global steel market, BSKH will also find that in order to compete it will have to shift some of its operations away from Europe towards overseas markets.

Whilst the work force worries and waits, British Steel shareholders can look forward to receiving $0.56 per share as a result of the deal, part of a total pay-out of $450 million. News of a merger led to a $0.20 leap in the value of British Steel shares. The last available figures for British Steel show the company made a pre-tax profit of $200 million for the year to the end of March 1998. Hoogovens made a net profit of $75 million last year.

Ken Jackson, general secretary of the Amalgamated Engineers and Electricians Union, stated weakly, “I am concerned about prospects for employment security. The work force has made enormous strides in improving productivity and efficiency. It would be wrong for only the shareholders to benefit while the work force suffered more job losses.” In fact shareholders will profit from dividends of 35 percent of the company's average annual earnings due directly to redundancies. Downsizing and cost cutting are the surest methods of raising dividends in the world market.

The global crisis, which began in 1997 in South East Asia, has meant that the emerging market's demand for steel has all but collapsed. This is the main reason that turnover in British Steel fell from $5.5 billion to $4 billion. Developing markets atrophied and steel produced in countries such as Korea flooded onto the world market searching for much needed foreign currency, forcing the price of steel downwards.

The world's steel industry remains in deep trouble. Demand is down, prices continue to fall and producers in the UK and US are saddled with strong currencies and interest rates. Production figures are down, with last year's world steel output at 782.1 million tonnes—compared with 791.6 million tonnes a year previously. At the start of 1998, one ton of hot-rolled coil steel sold for $324 in Europe. Today manufacturers are struggling to get $230—a price drop of 29 percent. One alarming indication of the severity of the situation is that producers in the former Soviet Union are finding profits negligible from their exports to Europe. In such a climate steel manufacturers are merging in order to stay fit against robust competition on a global scale.

This crisis of over-capacity means that there are too many steel mills producing too much steel. To compound problems the large integrated steelmakers face fierce competition from so-called "mini-mills", which use scrap metal in their efficient electric-arc furnaces. In addition, big companies like DaimlerChrysler and General Motors are able to push through purchases at rock bottom prices because of their ability to secure multi-year steel contracts with manufacturers.

The shrinkage of car manufacturers—brought about by the merger of DaimlerChrysler, Ford-Volvo and Renault-Nissan—means that big global steel manufacturers are competing for a diminishing number of customers. In the near future there are expected to be only six remaining car companies purchasing the highest quality steel.

Hoogovens' aluminum business and British Steel's 51 percent share in the Avesta Sheffield stainless steel plant will be of strategic importance. The new company needs to be capable of supplying different materials to customers whose industries are rapidly consolidating into a small number of huge companies, like the automobile and airline industry. Hoogovens serves manufacturers and processors with steel and aluminium products and services. Its core markets are mainly in automotive, car components, aerospace, shipbuilding, rail transport, packaging, building, furniture and optics. British Steel's main customers are in construction, automotive, packaging, aerospace, energy and engineering industries. The only counterweight to the enormous leverage of corporations who make up the buyers is to think big, merge or buy out others, thereby expanding capacity and expunging competition.

This consolidation by producers to retain their market share has brought about a wave of mergers in Europe's steel industry. France's Usinor joined forces with Sacilor more than a decade ago and just recently it swallowed Cockerill Sambre from Belgium. Germany's Krupp & Thyssen merged a couple of years ago and 35 percent of Spanish Aceralia was recently bought by Luxembourg's Arbed. This scenario left British Steel and Hoogovens as the odd ones out, until now. Industry analysts have praised the deal, believing it will give the new firm a greater foothold in the world market. The new company will be eclipsed only by Posco of South Korea and Nippon Steel of Japan.

BSKH's new identity will not contain any reference to Britain. Global consolidation means that any such reference would not only be a misnomer, but an obstacle to opportunities in the global market. Overt association with one market can be fatal if customers perceive it as a sign of immobility. Links with publicly owned pasts are also not to be retained, for fear this will conjure up images of industrial disputes and incompetence. A survey by brand consultancy Wolff Olins of 200 of the world's leading companies found that the label "Made in the UK" had only negative connotations for six out of ten firms.

An image change is only as good as prevalent trading conditions allow. Dark clouds are emerging over an already depressed industry and economy in the form of an impending steel trade war. Steel producers in the US are on the warpath over cheap imports undercutting their products and are calling for protectionist measures. The Clinton administration is already investigating Japanese imports. The American industry has been enormously profitable over the past seven years and has coped without mergers. The alleged "dumping" of steel by Brazilian, Russian and Asian manufacturers is explained more correctly as the result of a strong dollar, not the tactic of loss leaders.

The driving force for the "merger mania" in steel, oil, autos, chemicals, banking and airlines is the pressure to create ever-larger corporations capable of competing in the most important markets in the world. The British Steel-Hoogovens merger will compel producers in other industries to merge and adopt similar measures. This will further concentrate wealth and market shares within a small number of huge corporations, with the inevitable destruction of thousands of jobs. EU steel jobs have fallen from 870,000 in 1975 to 280,000 today.