



AvestaPolarit wants to make the world stainless

AvestaPolarit can boast of being one of the four largest companies in stainless steel worldwide. Since the merger last year, the new multinational has launched a series of extensive investments aimed at consolidating its position at the forefront of the industry thereby securing an increase in value for the shareholders. AvestaPolarit is confident that the extra capacity which it is rapidly developing will be necessary to meet customer demands in the years to come as stainless steel consumption reverts to its strong long-term growth trends. Stainless Steel World visited AvestaPolarit's headquarters in Helsinki, Finland, and talked to CEO Mr Ossi Virolainen.

The merger between Avesta Sheffield and Outokumpu Steel into AvestaPolarit in January last year took the whole industry by surprise. "Our reason for merging was the excellent strategic fit that gave us the apparent potential to become the best in stainless steel", explains Ossi Virolainen, President and CEO of AvestaPolarit. "I think we are now in a very good and strong position to achieve this goal. When our ambitious expansion and investment plans are finished, we will have substantially strengthened our position as a cost-efficient, big producer with a strong market presence. Not only big in volume, however, but also in product range, qualities and grades. We aim at being the preferred partner for our customers, preferred employer for our people and also preferred investment for shareholders."

MERGING COMPANY CULTURES

Thinking back on the intricacies of merging Avesta Sheffield and Outokumpu Steel into one unified company, Mr. Virolainen cannot suppress a small smile. "To start a new company from a merger of two companies is a very big challenge. It takes at least a few months to really get the

operation more or less running. We are still busy integrating the company cultures. Outokumpu Steel and Avesta Sheffield have had different ways of working, they have both been used to certain procedures, processes and leadership styles. Creating a specific AvestaPolarit culture is a fascinating but long term process."

The company has addressed the key leadership issues extensively in an organisational development project called Forte that deals with how the company is run, the way people work and the issue of crafting common cultural values. "Both companies were stainless steel producers, so that's the easy part. There are three nationalities, which dominate in the top management: Swedish, Finnish and British. When you talk about the specific AvestaPolarit culture, it is really about all those national cultures. That will remain so in the future because it is also an asset to be able to recruit people from different countries. What I would like to see as our company culture is cost consciousness and a strong profit orientation because that is a must in our industry to succeed. Customer orientation is another thing we emphasize very much. We need motivated employees, so we have to focus on people issues. High ethics are very important, too. These values and more concrete management issues are currently being discussed and promoted as part of developing our key leadership processes."

AMBITIOUS INVESTMENTS

The merger was followed up by ambitious investment plans, concentrated mainly on the former Outokumpu plant in Tornio, Finland, but also on the production facilities in Sheffield (UK) and Sweden.

The expansions at the cold rolling facilities in the UK and Sweden have already been finished. The big project in Tornio – to practically double the production at a cost of 790 million euros – is still underway and was augmented by a decision this spring to invest an additional 170 million euros to expand hot rolling. The bulk of the total programme will be completed by the end of this year, with full capacity scheduled to be in use in 2004. The project involves expanding all of the main units at the fully integrated Tornio works; namely, building the second melt shop, expanding the ex-

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isting hot rolling mill and building a totally new cold rolling plant. This means an increase of melting capacity of 1 million tons, providing very cost efficient production.

Expansion on such a scale naturally involves new technology. Mr. Virolainen: "Especially in cold rolling. We are building a so-called RAP-line (RAP stands for rolling, annealing and pickling), a fully integrated production line starting with black hot band and ending with cold rolled stainless steel products. It's a very fast, efficient, and flexible line. State-of-the-art and absolutely unique." When the line is finished, it will be the largest integrated facility for stainless steel that has ever been built.

"When this investment is ready, we will be able to significantly improve the production structure of the company", Mr. Virolainen continues. He is

referring to the restructuring of the melt shops. AvestaPolarit's smallest one, located at Degerfors in Sweden, will be closed around the middle of 2003. The production will be transferred to Sheffield, where the company is investing 22 million euro in billet casting facilities. "This will reduce our fixed costs by around 20 million euro per year. The biggest savings, however, come in the form of additional synergy benefits as the material flows and logistics in the entire Group can be streamlined, which will reduce the transportation of semi-manufactured products, slabs and hot band substantially."

The finished investments will also allow the cold rolling mills to specialize further in certain products and market areas, which in turn will enhance cost-efficiency. "This investment will create a good platform for further

growth of the company. It will enable us to produce quite a lot of hot bands, which makes it possible to expand our activities inside and outside Europe."

WHERE WILL ALL THAT STEEL GO?

AvestaPolarit's investment programme means a substantial stainless steel capacity growth in a market that, according to some, is already saturated. Mr. Virolainen does not fully agree with that opinion. He maintains that we should take a longer term view. "Firstly, the market and consumption of stainless steel is growing fast. We're talking about an annual growth rate of five to six percent. This is very impressive compared to carbon steel or other metals. It means that if there is excess capacity in the market place, it is only temporary and will be eliminated quite quickly because of the projected growth. Secondly, you have to take into account that our investments, although very large, will not result in all that capacity appearing overnight and swamping the market with stainless. It will take a couple of years before the full capacity is in use, so it will be a gradual process. Thirdly, we have a very extensive and experienced marketing network in the company. It was one of the rationales behind the merger that we could forge cost efficient production units and a strong marketing network in the new company AvestaPolarit. That is a big asset which will come into play when our investments result in more production capacity."

Running the Tornio expansion project



Mr Niilo Suutala is the business unit manager of AvestaPolarit Stainless Oy and as such responsible for the Tornio integrated mill in Northern Finland. Stainless Steel World talked to Mr Suutala to hear more about what is arguably the most ambitious expansion project in the stainless steel business. Mr Suutala: "For us here in Tornio the expansion project of our facilities is

an experience we would not like to miss out on for anything in the world. The project is really exceptional. It is the largest project currently carried out in any industry in Scandinavia and one of the largest ever in the stainless industry. Furthermore it is a technological "masterpiece". We have introduced a significant number of innovations in the new facilities in order to achieve two key goals: an excellent metallurgy of the end product and a cost efficient, or the outright most cost efficient, production in the world.

At present we are mostly concerned with ensuring that we meet our very demanding time schedule. It is of utmost importance that we meet our deadlines. That's quite a complex affair, considering both the size of the project and the fact that the number of people working on site has practically doubled with the influx of contract workers. At the same time we have to ensure that the construction activities do not interfere with the daily operation of the rest of the plant. Keeping production running at full speed is a priority for us, so that we can continue to serve our customers the way they are used to.

So far the project has gone very well and I am very confident that we will be able to start up our steel making and hot rolling facilities this July. The cold rolling facilities will follow in December and we hope to reach full capacity in 2004. Still, the last steps of commissioning and the start up remain a challenge for everyone here at AvestaPolarit's Tornio plant."

PRODUCTS AND MARKETS

A wide range of products enables AvestaPolarit to spread its sales over many markets. The company offers numerous steel grades in coil, plate, long products, tubes and fittings and precision strip. A large part of AvestaPolarit's production consists of standard stainless. With two thirds of overall sales, coil and flat stainless steel are the main products. The bulk of the investments is made in that area, so that share will increase.

The company prides itself on its strength in both product and process-oriented R&D, which plays an integral role in the whole business development, also in special products. Investments are implemented in that



AvestaPolarit invests significantly in its production facilities.

segment at the moment, for instance expanding billet casting in the Sheffield melt shop. Other investments are aimed at increasing the capacity for long products, especially in North America.

“We are very strong in most of our special products areas — in hot rolled plate, for example, we are the global market leader”, Mr. Virolainen points out. “We are also very strong in precision strip, which is a fast growing niche market. And another segment where we rank high is stainless steel tubular products. Most of that production is normal process type tubes in large volumes, but we also produce specialties such as fittings and flanges. Our ferrochrome business is another very important part of the whole. In the coil area we are very strong in different alloys. And even though we may produce many different products, they are all stainless steel. It’s a very good portfolio for investors.”

AvestaPolarit products are mainly sold on the European market, which takes up over 75 percent. Within that market, Germany and Italy stand out as big consumers, next to Scandinavia and the UK. Outside of Europe, North-America and Asia are important markets. Mr. Virolainen: “We have production in the USA in the special products area, mainly long products, plate and tubes, and we export coil from our European plants to North America.” The USA sales share is around ten percent. Asia is also a very fast growing market for stainless steels and especially mainland China. “Our exports to Asia will definitely grow.”

Having the USA as a market may mean trouble, since the Bush administration decided to duty steel imports heavily. Mr. Virolainen does not seem troubled by this development. “The bulk of stainless steel products was excluded from the process. In the summer of last year, flat or cold rolled stainless steel was already excluded, followed by stainless steel semis in autumn. So it is mainly certain long products exported from Europe to North-America, representing less than one percent of our sales, that are affected by section 201. Since we also have production in the USA, the effect on our sales is indeed minimal. Of course the process as such is against free trade principles. It is very worrying that these kinds of measures may spread. The EU has already decided on certain measures to protect the European market, again mainly in the carbon steel area. There is a risk that this will accelerate and that would be of no use to anybody, including the USA itself.”

LOOKING TOWARDS THE FUTURE, AND ASIA

The larger part of AvestaPolarit’s products is used in industries like pulp & paper, chemicals, food-processing, transportation and construction. The paper & pulp industry use products from different business units, needing coils and tubes as well as hot rolled plate.

Mr. Virolainen sees a substantial growth potential in most segments. In the construction industry, as an example, architects are favouring stainless steel more and more. “It requires a

very good cooperation with architects and designers to promote the use of stainless. The stainless steel industry as a whole has quite a lot to do in this respect, compared with for instance the aluminium industry that has been very successful in its sales promotion efforts. It’s a question of developing applications, and also making the architects who decide on the choice of materials aware of the properties of stainless steel. It is easy to use, maintenance free, the strength is high so you can use lighter constructions using stainless steel than when using carbon steel. The lifetime costs in many applications are lower than for the traditional competing materials.”

Another large market AvestaPolarit is not currently servicing is ferritic stainless steel and bright annealed stainless steel, mainly used in household applications. “We produce those on a small scale in our UK plant. That might be an investment area for us longer term.”

But first things first: the current big investment programme at Tornio must be completed and the changes implemented in the production structure and logistics. “This is very important in order to really get the benefits out of this merger”, Mr. Virolainen stresses. “Then we will look ahead into the future. We are a very European-centred company when it comes to production. We will look at growth potential outside Europe. We have some production in North-America, but none in Asia. That would be a logical step, also in view of our mission statement: AvestaPolarit wants to ‘Make the world stainless’. A stainless world is a better world, and we believe it is a very good business to be in.” ◀

FACTS & FIGURES

Name:	AvestaPolarit
Production facilities:	Finland, Sweden, UK, USA
Products:	stainless steel coil & special products (hot and cold-rolled sheet and strip, hot rolled plate, tubes, fittings, long products, precision strip
Net sales in 2001:	3 billion euro
Employees:	9,000