

# Arcelor goes back to basics

Two and a half years ago, the merger between three major steel producers – Aceralia, Arbed and Usinor – created steel giant Arcelor. The French Arcelor group is developing its activities in four core businesses: it is the world's biggest producer of flat carbon steel and long carbon steel, it is among the leaders in stainless steel production, and among the largest firms in Europe for distribution, transformation and trading. Curious about the activities of the new company Stainless Steel World contacted Mr Jean-Yves Gilet, Senior Executive Vice President of Arcelor who is in charge of the Stainless Steel Sector.



UGITECH is specialized in stainless steel and nickel alloy products. The main markets the company serves are automotive components, building material, electrical appliances energy and chemical industries in bars, wire rods and drawn wires in a very wide range of grades and dimensions (10 microns to 200 mm.).

By Michael van Wijngaarden

“Many people may have expected that a merger into a company the size of Arcelor would be accompanied by many problems”, Mr Gilet starts. “But fortunately we have proven them wrong. In business terms, the merger has indeed been very fruitful. We have consolidated our market share and we have even been able to maintain a healthy price level, in spite of the slow market in 2002 and 2003. We have also successfully achieved tremendous cost savings. Due to the synergy effects of the merger we have cut our costs company-wide by more than 400 million Euros on top of the reg-



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ular cost reductions that we continuously aim for. We were so successful that by the end of 2003 we were actually ahead of our cost saving program.” Mr Gilet explains the success of the merger by the fact that the necessary measures, which meant re-organising and re-structuring the organisation, were implemented quickly and vigorously. Two plants in the stainless steel sector, for example, were divested while investments were made in other parts of the world.

#### BRAZIL

It may come as a surprise, but for Arcelor Asia is not very high on the list for future investment areas. As far as the stainless steel activities are concerned, the international focus of Arcelor is now on Brazil and Europe. In Brazil the company has a minority share in Acesita, a company that, two years after it had been privatised in 1992, began an extensive investment plan for the technological modernization of its Timóteo Plant, including the expansion of its output capacity of cold-rolled stainless steels. With investments of 600 million USD, the company concluded its fourth expansion plan in the second quarter of 1998, increasing the stainless steel production line capacity from 120,000 tons per year, in 1993, to 290,000 tons. With these investments, the company was prepared to enter the global market. The decisive step into the twenty-first century came with the entry of Arcelor into Acesita's control group, in September of 1998. The agreement signed between the Pension Funds, who were Acesita's controllers at that time, and Arcelor opened the way for the French group to enter Acesita's control block. As a result, the company strengthened its capital structure, accelerated its corporate development, extended its stainless capacities up to 500 000 tons and consolidated its strategic position as the sole producer of stainless and silicon flat steels in South America. Mr Gilet: “In Brazil we are consolidating our position which will allow us to have better control and to help develop our activities in flat carbon products (CST and Vega do

Sul), long carbon products (Belgo-Mineira) and stainless steel products (Acesita). This policy was one of the main reasons why we launched a capital increase just before the holidays this year. We aimed to increase our equity by more than 1 billion Euros. If the merger had not been a success we would never have been able to achieve such a capital increase. Our participation in Acesita enables us to service not only the Brazilian market but the entire South American market as well and even the rest of the world. The Brazilian market is showing promising growth, 8% for

stainless steels, which is much more than in Europe. Also, doing business from Brazil is very competitive due to the good cost position. For us it is therefore interesting to develop our Brazilian activities, such as the production of slabs from hot rolled coils, in order to export at market price. A few year ago we also decided to launch a second project, a cold rolling galvanising line in the south of Brazil which is dedicated to the automotive industry which shows a growing interest in stainless steel applications."

## The different stainless steel activities of Arcelor are covered by the following businesses:

### Flat products

*Mr Philippe Darmayan, CEO UGINE & ALZ:* « With the merger of Aceralia, Arbed and Usinor into Arcelor the stainless steel flat product activities of Ugine and ALZ were combined to form a new company: Ugine & ALZ. Ugine has been a prominent player on the market for very long. In fact Ugine's predecessors were true pioneers in the stainless steel business. Through the years the company developed itself into a top supplier specialising in thin material and special bright annealed ferritic grades. ALZ on the contrary was founded in the early 1960s and started as a greenfield plant. The company is an important producer of wide hot-rolled material, up to two metres width.

Today we are a leading manufacturer of stainless steel flat products, we even have the capacity to roll 2 meter wide products, which is very rare in the stainless steel business. In 2003, we produced 1.4 million tons of steel and realized a turnover of 2.38 billion euro, resulting in a 25% market share in Europe. Our product range is one of the most extensive on the stainless steel market. It includes a complete series of stainless steel grades for all applications (automotive engineering, domestic appliances, general industry, building construction and trading), both hot and cold rolled products, a wide variety of formats and dimensions (coils, sheets, blanks, etc.) and an extremely large choice of surface finishes, from bright annealed to matt.

### Long products

*Mr Victor Polard, CEO UGITECH:* "UGITECH is the name of the merger between Ugine-Savoie Imphy and Sprint Metal and is specialized in stainless steel and nickel alloy products. The main markets we are

servicing are automotive components, building material, electrical appliances energy and chemical industries in bars, wire rods and drawn wires in a very wide range of grades and dimensions (10 microns to 200 mm.). We deliver our products worldwide but mainly in Europe and NAFTA through a service centre network or directly from the works. Our main production facilities are located in France with some subsidiaries in Italy, Germany, USA and Mexico. We have a total capacity of about 250.000T/y which in this products range allows us to be the biggest in Europe and among the top three worldwide. Our yearly turn-over is about 600 million Euro. The main equipment are two EAF, one AOD, one continuous casting, one bar and wire rod combined mill, a specialized wire rod for Ni alloys, bar and wire drawing facilities. Although austenitic grades are the majority, we develop with the help of our R&D centre in Ugine more and more ferritic, martensitic and duplex grades tailored for optimum performances in the processing and customers applications. We are recognised as a well-known supplier for quality, services and innovation and particularly with our patented UGIMA product famous worldwide for its excellent machinability."

### Plates

*Mr Michel Chaboud, CEO INDUSTRIEL:* "Industeel is specialized in advanced technology carbon steel, alloy and stainless steel plates. We operate three complementary industrial plants in France and Belgium and have a network of 40 sales offices throughout the world. Industeel produces plates that range from 5mm to 300 mm thick for standard grades and up to 200 mm thick for special grades such as duplex, heat resistant alloys and super-austenitic materials. Our customers are mostly fabricators, engineers, tube makers, oil & gas companies, distributors and the military. A very important part of Industeel is the R&D facility in Le Creusot. Our Material Research Center (Centre de Recherche des Matériaux du Creusot) is a world class partner to respond to new market requirements with innovative products and high value solutions. We aim to continuously improve the durability, fabricability and in-service performance of our products in process equipments, machinery and structural applications. Recently developed solutions include: weldable super-martensitic steels for offshore applications: SUPERMAX and a complete family of duplex stainless steels offering strength, corrosion resistance and other attractive properties that are available under the name URANUS 35N, 52 N+. We even assist our customers with materials selection, application engineering and testing in corrosion resistant steels, abrasion resistant steels, pressure vessel steels and tool steels."





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### STAINLESS STEEL FLAT PRODUCTS

Mr Gilet explains that the business strategy of Arcelor is aimed at strengthening the company's position in Brazil and Europe in the field of stainless steel flat products. The remaining stainless steel activities such as long stainless and alloy products and precision steel strips may be divested in the future as part of the ongoing process of achieving a lean, back to basics organisation.

According to Mr Gilet, demand for stainless steel flat products is likely to grow in two important areas: automotive and architecture. Mr Gilet: "Looking at the car industry, the growing demand for stainless products is due to growth of the car industry itself and of new applications for stainless steels. One big driver of the increase in the demand for ferritic grades has been the introduction of the catalytic converter, which was initiated by EU legislation. Today there are indications that stainless steels will be used more often in other areas as well such as structural components. The big advantage of stainless is not only the corrosion resistance but also the much better mechanical properties than carbon steel. It is harder and can absorb more energy so you can use less material and still make a safe car. Car manufacturers are becoming more aware of this. The problem is that we still need to explain the higher cost of stainless." The second important growth market for Arcelor is the architectural market where flat products are mostly used for the exterior cladding of buildings or roofing applications.

Surface finish and aesthetic appearances are the elements that determine whether a product will be selected so Arcelor is always in close contact with the end user in order to meet his demands. Mr Gilet: "Our customers are serviced through a number of stainless steel service centres around the world where they can source ready cut products. It is our goal to continuously increase the number of stainless steel service centres where the market requires it. We feel that even though stainless steel is increasingly becoming a commodity product, the quality of our distribution network remains key to our success.

Besides focusing on flat stainless steel products, Arcelor is currently also limiting its geographical focus on Brazil and Europe. As already mentioned, Brazil shows a healthy 8% growth and as far as Europe is concerned growth will have to come from an increased competitiveness. To achieve this, Arcelor is creating a brand-new meltshop on the hot rolling site in Charleroi, Belgium, under the name of CARINOX. The foundation stone for the new Carinox melting shop was laid on 2 April 2004, in the presence of the Arcelor general management and Walloon government representatives. The new melting shop is the largest investment decided to date by the Arcelor group. Carinox is a strategic industrial project, representing a capital expenditure of 230 million euros, and involving the construction of an electric melting shop upstream of the hot strip mill. The project will make Charleroi an integrated plant for the production of hot rolled stainless steel strip, and will create about 400 new jobs. The meltshop is set to come on stream in 2005 and will have a capacity of one million tons. Mr Gilet: "Together with the one million ton meltshop capacity that we already have in Genk, Belgium, we will be able to stay competitive and strengthen our position in Europe as one of the major stainless steel producers."

### About Arcelor

Arcelor is the world's largest steel producer, with a turnover of 25.9 billion Euros and shipments of 40.2 million metric tons of steel in 2003. Employing 98,000 employees in over 60 countries, the company is a major player in all its main markets: automotive, construction, household appliances and packaging as well as general industry. Arcelor is by far the world's leading supplier of steel for automotive applications. Arcelor places its commitment to sustainable development at the heart of its strategy and ambitions to become a benchmark for economic performance, labour relations, social responsibility and environmental protection in the world of steel.

*The stainless product portfolio is made up of the following categories:*

- Flat stainless products: UGINE & ALZ (Europe), Acesita (Brazil)
- Long stainless and alloy products: UGITECH (Europe, Mexico and the United States)
- Stainless Tubes : Matthey and Meusienne (Europe)
- Precision steel strips and flat nickel alloy products: Imphy Ugine Précision (Europe, United States)
- Special stainless steel plates, special steels: Industeel (Europe).