

# Tubacex ready to take on the challenges of the future



*Tubacex group is increasingly focused in downstream activities, particularly in the offshore world.*

The Tubacex Group is a truly dynamic company vouchsafed by the fact that it is one of the world's leading seamless tube and pipe producers. It has, moreover, a long standing history and tradition based on the delivery of high-quality goods produced using a scalar of expertise and superior technologies at competitive prices. With main headquarters in Llodio, Alava, just a hop and a skip from Spain's northern seaport of Bilbao, the company is about to celebrate its fiftieth anniversary in 2013. After visiting Tubacex for articles that appeared in the March 2001, June 2007, and June 2010 issues of *Stainless Steel World* magazine, we recently returned in April 2012 to talk with Guillermo Ruiz-Longarte (Managing Director) and Antón Azlor (Vice-president Marketing & Sales) about the company's recovery after the recent worldwide economic crisis of 2009–2010, their return to profitability in 2011, the considerable investments that have been taking place, and their strategic plans for the future.

*By John Butterfield and Gillian Kersley*

"2011 has been a transitional year for us," begins Guillermo Ruiz-Longarte. "After the world economic crisis of 2009–2010, last year was a time of recovery enabling us to get back to profit and to pick up on business levels. Nevertheless, even this

pleasing result shades in comparison to the importance of 2011 in being used to transform the industrial and commercial framework of the Tubacex Group in accordance to our strategic planning. Where before we were largely focussed on

downstream activities, we have now decisively invested in upstream as well. This change around has been related to large investments that have been taking place – an umbilicals plant and a new extrusion press in Austria, and new



facilities in Spain, all to enable us to concentrate on more specialized products – OCTG and CRAs where we anticipate very good prospects and better margins. They are also directly related to the strategic alliance that the Tubacex Group has with Vallourec & Mannesmann (V&M).” This new orientation will make it possible for the Tubacex Group to establish a basis for sustainable growth in the future and even though markets have still not returned to pre-crisis levels, the company is progressively bettering its position in terms of the quantity and portfolio of products. Mr. Ruiz-Longarte: “If we can accomplish our plans in the next two years, then more than one third of our sales will come from products that were not even in our portfolio five years ago. This is quite an achievement for a stainless steel company since the time needed for maturity of products is usually much longer.”

This year the Group expects to see a clear improvement in its activity levels, and anticipates to get payback from its investments. 2013 will be a milestone not only because of the company’s anniversary but also because it will provide a perfect occasion to assess if past investments and the plans followed in the last five/six years have been turned into reality, to see payback, and to observe if they have managed to strengthen their position in the market. Mr. Ruiz-Longarte continues “We are optimistic of achieving the goals though we cannot say everything is solved and we cannot ignore macroeconomic factors and financial aspects outside our control.”

### Market evolution

Looking ahead to Tubacex’s market plans during the coming years, Mr. Azlor comments: “2008–2010 was very hard because of the overall drop in demand for stainless steels, especially in Western countries, which led to a slump in prices. Today, there is the feeling that things are returning to a more normal situation and that industry is improving in general.”

And which areas does Tubacex intend to concentrate on during the coming time? Mr. Azlor: “Recent news from China shows us that the economy has faltered a little but it still remains the world motor and it is very important for us as a market. A lot of exporters think that 2012 will simply be a transitional year there, with demand shortly returning.

Moreover, business is generally booming in South-East Asia. With regards to the power industries: a side effect of the impact of Fukushima has been an increase in demand for gas as an energy source with subsequent investments in the gas fields of South-East Asia and North Australia which will be good for us. Obviously, however, the most important growth markets remain China and India where the power generation industry is developing strongly to catch up with the high growth rates of both countries, including the development of new, highly efficient technologies and plants which have a growing need for seamless stainless tubes. We anticipate much success in this field.

Looking elsewhere, we anticipate doing more business in North Europe where demand is stronger than in South Europe. For North American markets our prognosis is less certain in this election year. Demand is definitely up and investments are returning after the disaster of the explosion aboard the Deepwater Horizon in 2010 but some decisions will be held off, as for example energy matters, until after the Presidential elections, and in some cases financing is still proving a problem for some companies. In South America, and Brazil, we likewise see good perspectives in the offshore business for both our OCTG, umbilicals, and other special products. The needs of the offshore industry are particularly demanding, which ideally fits our portfolio.



*Large investments that have been taking place enable Tubacex to concentrate on more specialized products.*

Further, although the petrochemical industry has always been very important for us, we are, nevertheless, currently facing low investments in revamps and new builds in the US and Europe. Luckily this is being counterbalanced in the rest of the world where we are increasingly receiving requests to submit offers on projects from Russia and the Middle East. We are world leaders in this field, especially in industrial heaters and furnaces.”

### Commercial situation

The success of Tubacex in the seamless tube and pipe market boils down to the fact that they produce a high-quality, sophisticated product with a wide variety of uses. For several years, however, the value of these products has been disintegrating and prices have been dropping due to variety of reasons right across the world market. For a long period it was impossible for Tubacex to increase their base price to support the considerable cost increases in Europe. This damaged their profitability. To rectify the situation they therefore announced price increases on January 1st and April 1, 2012. These increases will be used to compensate the very low prices charged in previous years whilst enabling them to reinvest in innovation and new products. New price increases will have to come in the future. “However,” says Mr. Ruiz-Longarte: “we will maintain a fair balance



*Quality remains a feature in Tubacex production process.*

between manufacturing and the market situation.”

Mr. Azlor adds: “Another driver of our increased profitability will come from our investments in CRA grades for OCTG products, umbilicals and supercritical products. This is also tied in to the celebration of our third year of alliance

with V&M, in February 2012. This has been very successful in the fields of OCTG CRAs, in powergen and in R&D. Together, we are achieving results, to make us become even more competitive, boost the positions of our respective companies, and place us firmly on the map with the grades for today and tomorrow.”



*The power generation industry is developing new, highly efficient technologies and plants with a growing need for seamless stainless tubes.*

### Investment and new equipment

During last three years, 2009–11, Tubacex invested 100 million Euros in their operations. It was not an easy task to accomplish during this difficult economic period but the company was very clear in its focus as to where their business opportunities lay for the future. This investment was necessary to adapt their product portfolio to concentrate more on high-grade OCTG and CRA products. During this period, extrusion and finishing lines have been added to the factory in Llodio, Spain and a new finishing line in Amurrio, Spain. Similarly, investments have been made to develop new grades for supercritical boiler tubes internally, but also in collaboration with V&M.

Mr. Ruiz-Longarte: “In Austria our production has increased from one to two

plants and is now composed of a conventional plant, a new state-of-the-art extrusion press, and a completely separate umbilicals plant. At the same time we are further developing our capabilities in the steel mill shop in Alava. As we increase our specialization and enter the field of high-nickel and other sophisticated alloys, and as requirements and specifications in our industry become increasingly demanding for the production of OCTG, CRAs and umbilicals, so we wish to increase our control over the entire press processing involved in producing our tubes and pipes. We see this as being critical to guaranteeing quality and as an historical asset to the group. At our plant in Salem in Pennsylvania, we will similarly concentrate on the production of high-nickel alloys with tough specifications – here primarily for the aeronautical and defence industries. Again, perfectly fitting our portfolio of products with a high profitability though not necessarily a large production tonnage.”

### Operative excellence

Tubacex's Management realise that it is not just enough to bring the recent investments on line to guarantee the success of their strategic plans. More is needed. The Group's organizational structure is changing and further improvements will be made to processes. Though the Group will stay close to their traditional values of productivity, competitiveness, customer service, cost control, and investments, it will mean that they will change from a simple-concept tube production organisation to one involving complex operations. Such changes naturally require a different organisation and staffing from production right through to final sales. These changes are now being implemented in Amurrio and Austria and involve migrating from the traditional concept of a production unit to making each mill a profit centre/business unit with control over the operations done there.

Moreover, putting the client first after safety, also means a different approach to planning, programming, servicing, and delivery and lead times. These developments are already underway in Tubacex's Llodio mill with regard



*Tubacex is a vertically integrated group with its own steel melting shop.*

lean manufacturing processes.

Mr. Ruiz-Longarte: “In the past, tubes were produced in a non-differentiated way. However, such a methodology is no longer compatible with the high degree of specialisation that our present-day clients demand. We have to create an internal framework in which we consider client orders as a project in their own right. This means investment in control, reliability, and project management and in ultimately organizing complex projects. To say that you have faith in the quality of a single tube is a very simple concept. To develop this concept to a whole mill process from melting through to final dispatch of an order to a customer is very complex. It is, however, something which we see as being essential to our future. In short, we have considerably improved our manufacturing capabilities to meet the needs of our clients across the board, and especially in connection with OCTG, CRAs and umbilicals.

Nowadays, we also encourage all our staff and our mills to be ‘near’ to our customers and to be flexible in their approach – to look carefully at how our services and products can be improved, lead times can be reduced, and costs kept down. These attitudes are becoming part of our everyday life but do not happen overnight. To implement them requires leadership, guidance and training so that that our staff understand the new goals and how to achieve them.

### Future

In conclusion, it appears that the future for Tubacex is optimistic and bright.

Mr. Ruiz-Longarte: “We have started internal discussions about our strategic planning till 2018 and it is clear that we will further extend our specialization organically, in similar fashion to that in our mills in Austria, Spain and the US. We will also place considerable attention to expanding our potential in developing markets, as for example, Brazil. We certainly intend to increase the business we already do with India and China and use these countries as a platform for our future developments. Another axis where we will grow is in the Asian-Pacific region. We are also looking into possibilities that go beyond technical-commercial collaborations, i.e. of perhaps even buying into a concern(s), which offer a high degree of specialisation and will enable us to strengthen even further our product portfolio. We are not interested in necessarily increasing capacity since we see a need for global rationalisation in this field. Rather we will continue to position ourselves at the high-quality end of the market, concentrating on building long-term relationships and the provision of excellent after-sales services. We intend to continue to work to be the most competitive, service oriented, well known company leader in sales and profit in this demanding market.”