Restructuring and Adjustment

Lessons Learned and Experience of the U.S. Steel Industry

Global Forum on Steel Excess Capacity

March 28, 2019
U.S. Steelmaking Facility Closures Since 1993

Source: AISI
Consolidation via Market Mechanisms: Mergers and Acquisitions

- The U.S. steel sector has been characterized by dynamic consolidation via market-driven mergers and acquisitions.
- Entry and exit of steel firms from the market is a response of private companies to conditions in the market.
- Productive assets of exiting or downsizing firms are often sold to other companies that have the investment capital and expertise to restructure.
  - ArcelorMittal, now one of the largest U.S. producers, acquired assets of previously bankrupt U.S. companies in 2005.
  - Many other recent examples abound:
    - Nucor, AK and SDI have acquired various assets in recent years.
Industry Consolidation in the United States

U.S. steelmakers with over 2 million tons capacity in 2000

Source: World Steel Dynamics, SMA
Industry Consolidation in the United States - 2017

U.S. steelmakers with over 2 million tons capacity in 2017

- NUCOR: 29.5
- ARCELORMITTAL: 26.1
- US STEEL: 24.4
- Gerdau NA: 12.9
- AK STEEL: 11.0
- STEEL DYNAMICS: 9.7
- SSAB: 3.5
- EVRAZ: 3.0
- COMMERCIAL METALS: 3.0
- NORTH STAR BLUESCOPE: 2.2

Source: World Steel Dynamics, SMA
Consolidation via Market Mechanisms: M&As Should Be Market-driven

- Mergers and acquisitions in the U.S. market are driven by the steel manufacturers themselves, consistent with market forces
  - In the United States, steelmakers are decision makers on M&A, through analysis of the market situation and negotiation with other entities; M&A decisions are not the role of federal and state governments
  - Government oversight of M&A in the steel industry is limited mostly to competition laws, transparency, financial filings, and environmental permitting, etc.
  - There are no state-owned banks to fund “zombie” firms or inefficient capacity
  - The U.S. government does not get involved in trying to merge inefficient enterprises with more efficient companies
Consolidation via Market Mechanisms: Steel Firms Drive Restructuring and Innovation

- **Product Innovation and Process**
  - U.S. integrated producers largely focused on flat products; U.S. electric arc furnace producers initially focused on long products and then moved into markets for sheet
  - Product innovation in the steel industry historically has been customer oriented
  - Process innovation was driven by competitive pressure to reduce costs and improve both efficiency and quality in order to secure chosen markets

- **Restructuring of the steel industry altered the geography of steel making in the United States**
  - Traditional steel regions lost capacity and employment very substantially
  - Steel-making capacity and employment grew very substantially in non-traditional steel regions
  - Productive resources - capital and labor - moved from declining regions to growing regions
  - Capital investments for firms became linked to firm-level market goals; not firm and government politics

*Source: Frank Giarratani, University of Pittsburgh*
U.S. Raw Steel Production by Furnace Type

Source: AISI
New Market-driven Capital Investments, including from Overseas, Have Facilitated Restructuring and Competitiveness

- Market-based infusions of investment, ideas and technologies have helped restructuring in the U.S. steel sector
  - Investments from the private sector benefit workers, customers and communities and have made the U.S. sector among the most competitive in the world
  - Foreign and U.S. companies that do not perform well are allowed to exit the market
The U.S. Steel Industry in 1993 versus 2018

**U.S. Steelmaking Facilities**

- Facilities in 1993 that Continue to Operate in 2018
- New Facilities That Opened Between 1993 and 2018
- Facilities That Would Close Between 1993 and 2018

**Steelmaking Facilities**

- 1993: 117
- Closures: -38
- Additions: +18
- 2018: 97

**Steelmaking Companies**

- 1993: 88
- 2018: 35

**Estimated Ownership of U.S. Steelmaking Capacity**

- Foreign Ownership

Source: AISI
Barriers to Exit: Bankruptcy Needs To Be a Workable Option

- Firms that cannot meet their financial obligations should be allowed to fail and exit the market in an orderly fashion.
- Strong, fair and consistent bankruptcy laws are essential to sound restructuring.
- Continued access to funds (e.g. through preferential financing by state-owned banks, support from state owned enterprises and/or forgiveness of non-performing loans) is a barrier to exit.
Barriers to Exit: Facilitating Labor Adjustment

- U.S. steelmakers know from experience that it is difficult to close steelmaking capacity, often the lifeblood of a community
- Workers are a critical asset for steel manufacturers
  - Governments should favor labor market policies which facilitate the employment of workers who are dismissed as a result of restructuring
  - General social safety net is also very important
  - The United States maintains programs for adjustment assistance for workers made redundant due to unfair trade
  - As the U.S. steel industry becomes more advanced and driven by technological innovation, investing in workforce development is critical
Bankruptcy Filings, M&A and FDI helped Restructure the U.S. Steel Industry

Bankruptcy Filings Impacted Significant Portion of Steel Industry in the U.S.

U.S. Steelmaking Capacity Impacted By Acquisitions

Source: U.S. International Trade Commission (USITC)