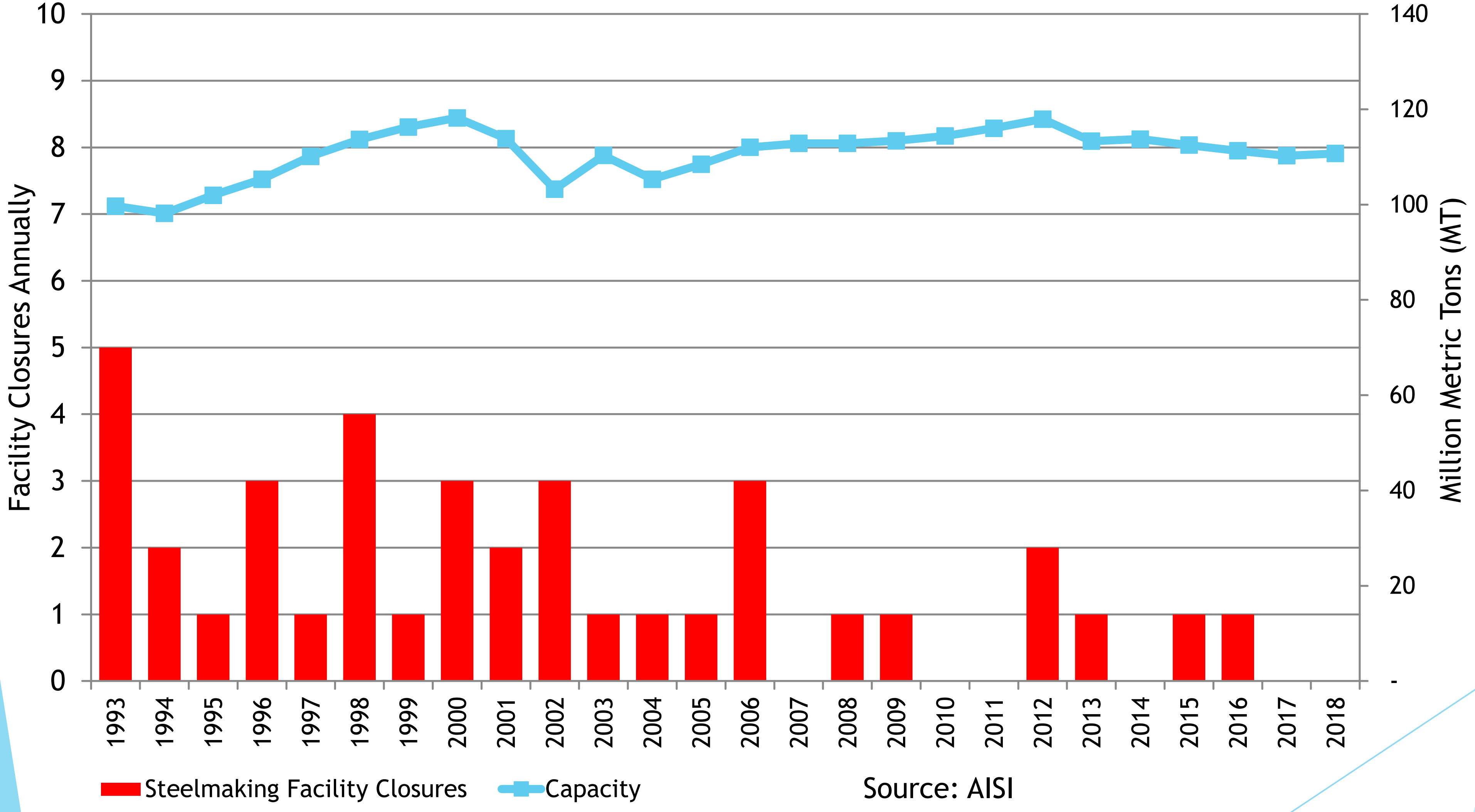
Restructuring and Adjustment

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

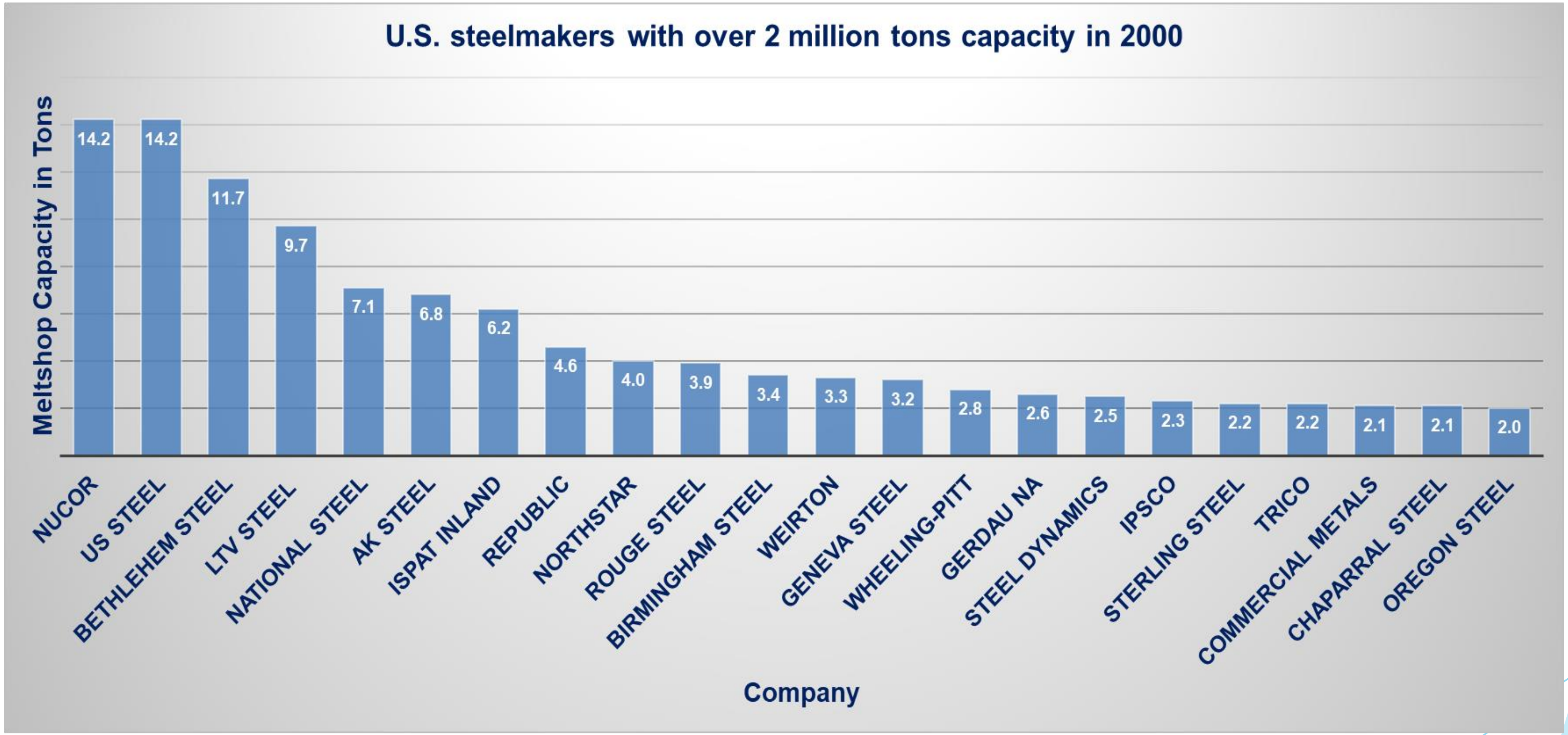


Source: AISI

Consolidation via Market Mechanisms: Mergers and Acquisitions

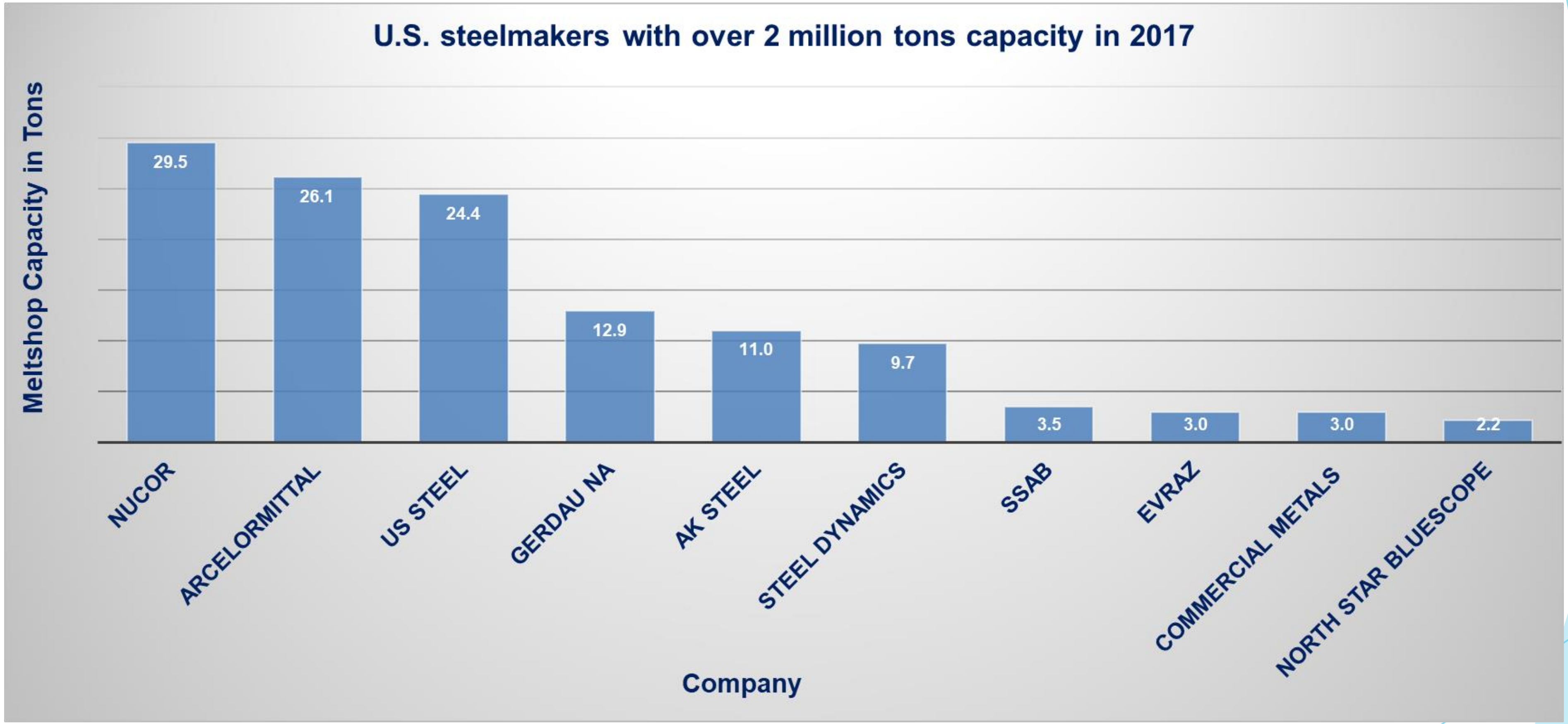
- The U.S. steel sector has been characterized by dynamic consolidation via market-driven mergers and acquisitions
- Entry and exit of steel firms from the market is a response of private companies to conditions in the market
- Productive assets of exiting or downsizing firms are often sold to other 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
    - CMC acquired certain U.S. assets of Gerdau (2018)
    - Liberty Steel (UK) recently acquired Georgetown Steel and Keystone Industries (2018)

Industry Consolidation in the United States



Source: World Steel Dynamics, SMA

Industry Consolidation in the United States - 2017



Source: World Steel Dynamics, SMA

Consolidation via Market Mechanisms: M&As Should Be Market-driven

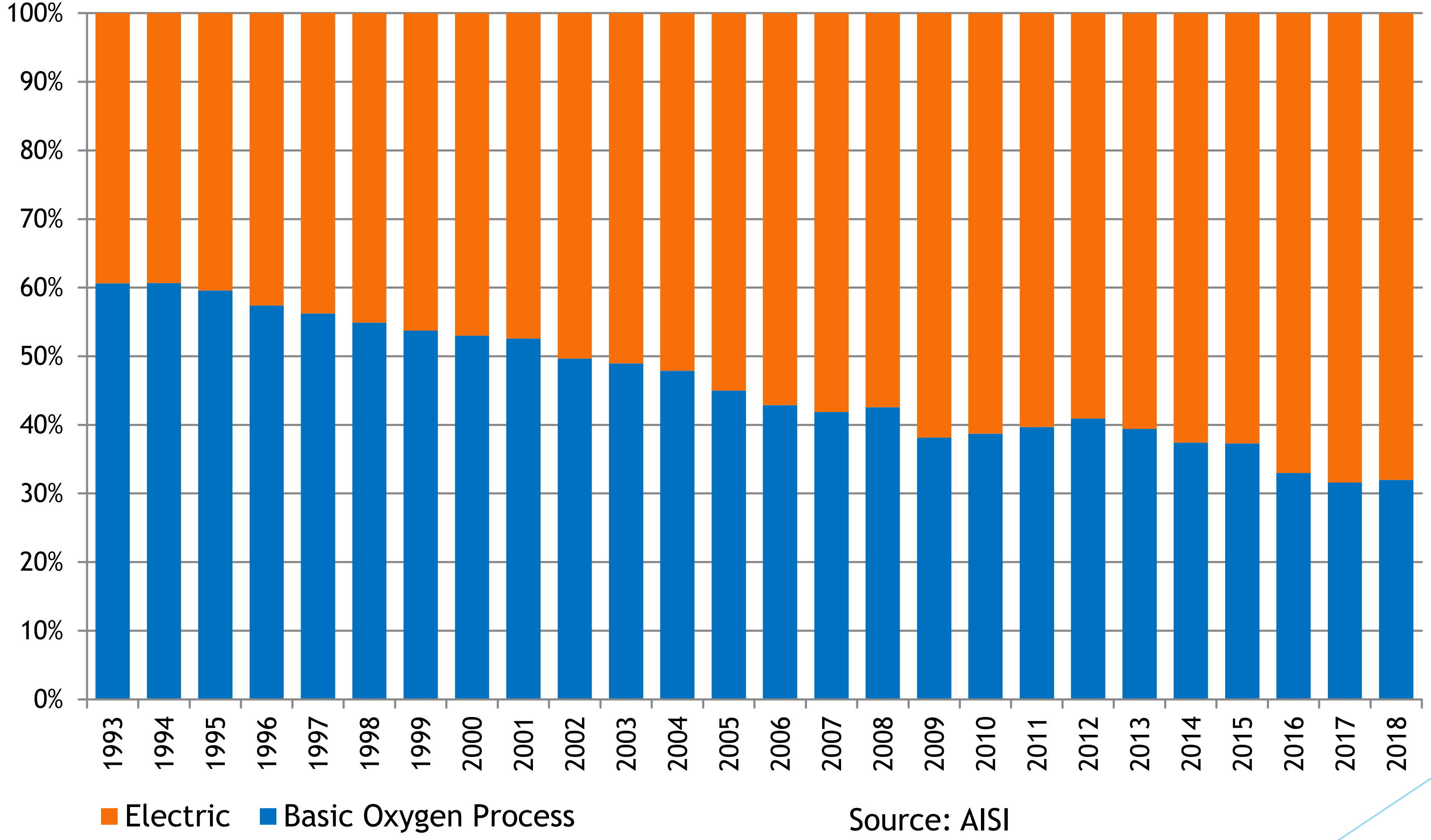
- Mergers and acquisitions in the U.S. market are driven by the steel manufacturers themselves, consistent with market forces
  - In the United States, steelmakers are decision makers on M&A, through analysis of the market situation and negotiation with other entities; M&A decisions are not the role 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

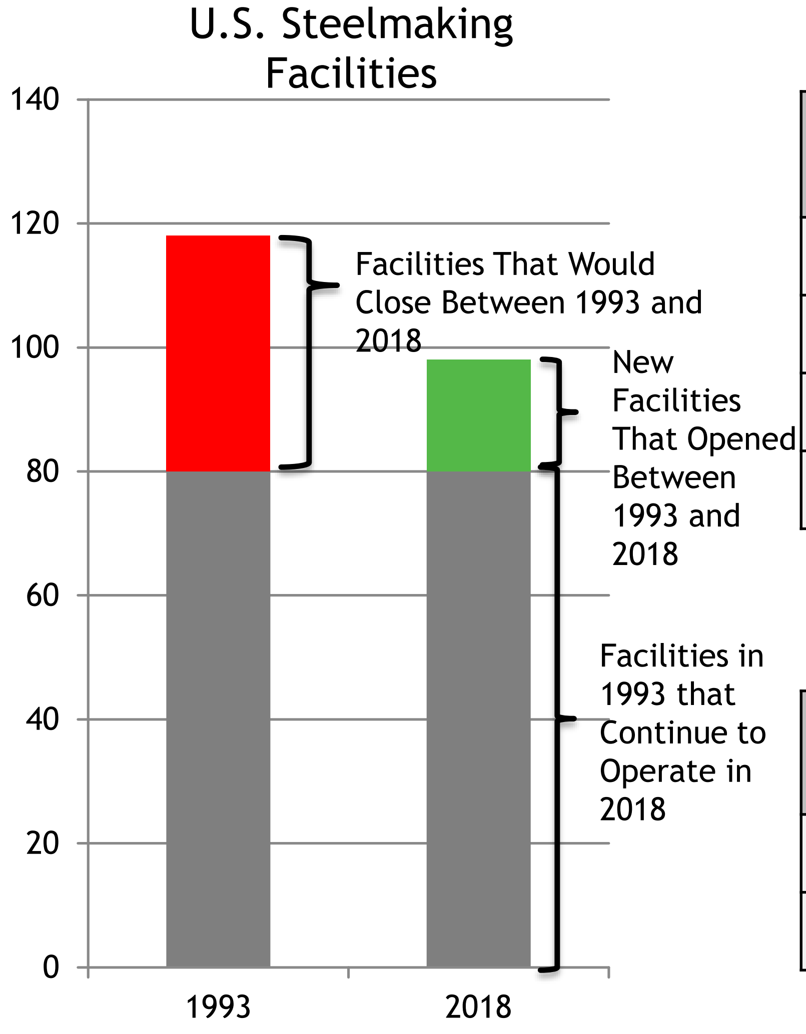


Source: AISI

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

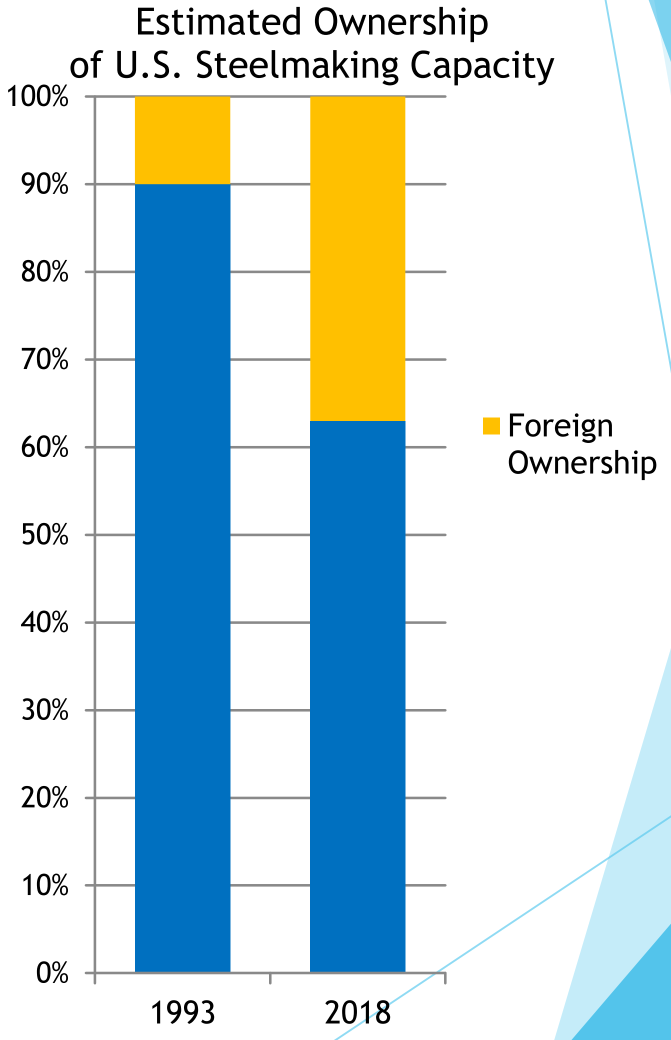


	Steelmaking Facilities
1993	117
Closures	-38
Additions	+18
2018	97

Source: AISI

	Steelmaking Companies
1993	88
2018	35

Source: AISI



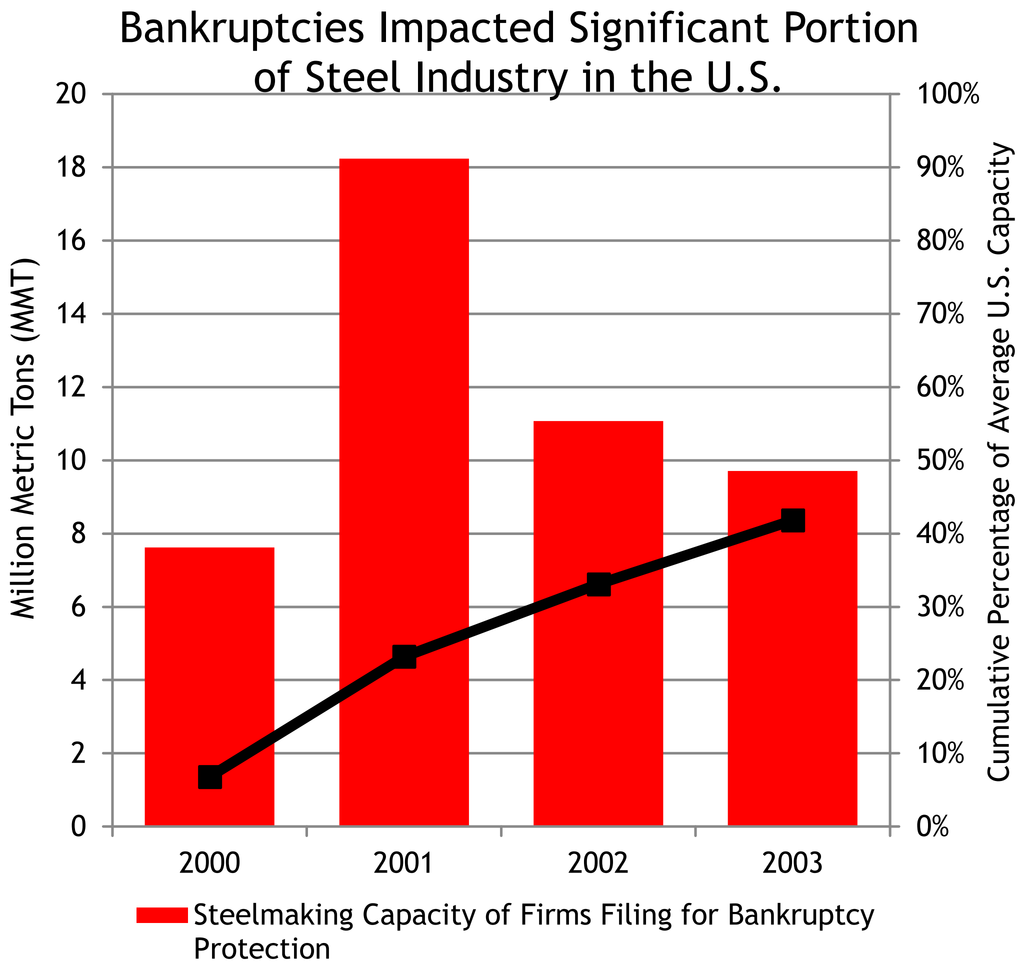
Barriers to Exit: Bankruptcy Needs To Be a Workable Option

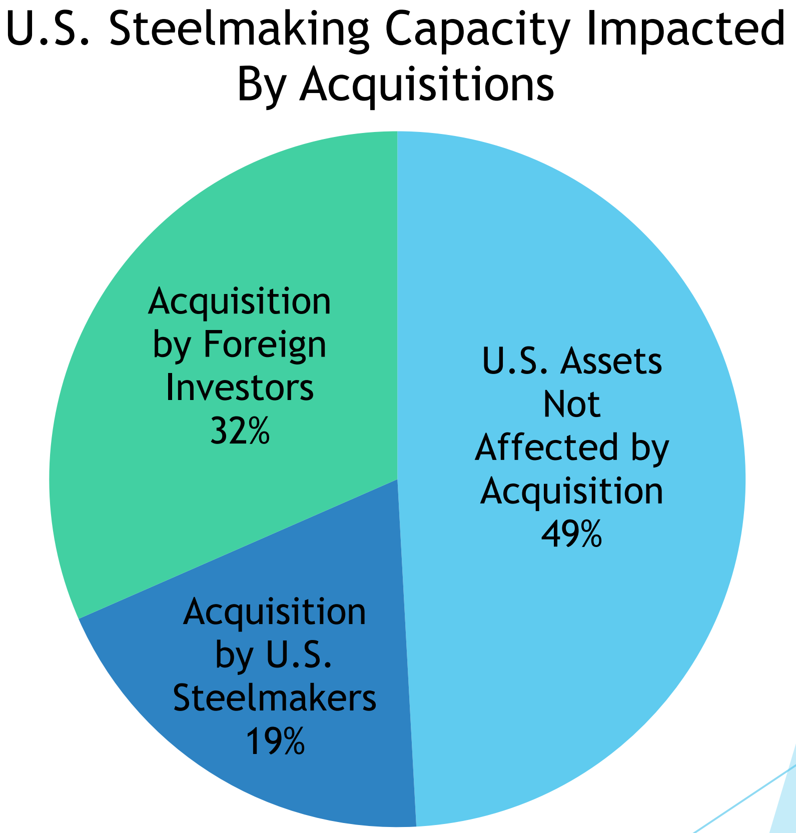
- Firms that cannot meet their financial obligations should be allowed to fail and exit the market in an orderly fashion
- Strong, fair and consistent bankruptcy laws are essential to sound restructuring
- Continued access to funds (e.g. through preferential financing by state-owned banks, support from 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





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