ArcelorMittal awaits opening of China market

FOREIGN STAFF
Shanghai

AREelorMittal, the world’s largest steel maker, welcomed the potential removal of a near 10-year block on overseas takeovers in China’s steel industry. ArcelorMittal is one of the few foreign steel mills with investments in China since the ban on overseas control was imposed in 2005. The world’s top producer and consumer is considering scrapping the ban which may be a catalyst for global mills to revive a push into China’s $420bn steel sector where demand is seven times greater than in the US, the next biggest market.

“It’s good news that the government is moving forward on reforms and liberalisation on foreign investment,” ArcelorMittal CEO Lakshmi Mittal said in an interview in Loundi, in China’s Hunan province.

“Whether we will like to invest more in this country or not will depend on the future development of our various projects.”

China’s steel output may reach 1.1-billion metric tonnes in the next 10 years driven by urbanisation, BHP Billiton, the world’s biggest miner, said this month. That would be 41% more steel than it made last year.

The Asian nation consumed about 700-million tons of the alloy last year, eclipsing the 95.6-million tons used in the US.

Automobile production in China, already the world’s biggest market, may climb about 60% in the next eight years, Mr Mittal said on Sunday, adding his firm is focusing on making steel for industries including vehicles and white goods in China.

Chinese mills, which produce about half the world’s steel, have been plagued by challenges and are seeking better technology and higher-value products such as automotive steel to help stem losses and improve productivity.

Talks over the near-decade-long ban come amid a wider push by China’s leadership to boost foreign investment and to open up its state-owned industries. The nation has announced plans to seek private capital for its top energy companies.

WAIT AND SEE: ArcelorMittal CEO Lakshmi Mittal has welcomed China’s reforms and liberalisation on foreign investment. Picture: BLOOMBERG

“It can be a game changer,” Tom Price, a global commodities analyst with UBS in Sydney, said.

Mills with their own iron-ore reserves may be more attractive to companies such as ArcelorMittal and South Korea’s Posco.

About 80 of China’s major steel makers had a combined loss of 2.3-billion yuan ($370m) in the first quarter in what has been described as the harshest operating environment in history.

Steel reinforcement-bar futures in Shanghai yesterday touched 3,009 yuan a tonne, the lowest level for a most-active contract since the futures debut in 2009. Some mills have faced a credit squeeze as the government moves to curb over-capacity, worst in construction steel, and to protect the environment.

The glut of unused capacity reached 300-million tonnes last year, according to the China Iron and Steel Association. China’s capacity utilisation rate fell to 74% last year, the lowest in more than a decade.

“China already has built over-capacity and this capacity needs consolidation,” Mr Mittal said in Loundi at the opening of the company’s $832m automotive steel venture in the Asian nation. “Some of the foreign investors would like to wait and watch what’s going to happen to these overcapacities.”

Smaller mills with 5-million tonnes of annual capacity may be the first targets for foreign investors as they are usually more efficient and have expertise in specific products, researcher Steelhome.cn chairman Wu Wenzhang said.

Investors may not rush to take control of state-mills, according to Bank of China’s investment banking unit BOC International.

“State-owned mills may not be appealing to foreigners unless China has clear policies to help improve their efficiency by slashing the redundant payrolls,” BOC International head of metals and mining Le Yukun said from Shanghai.

Still, talks over the deregulation of foreign ownership of steel mills may take time because there are opposing views on the issue, China Iron and Steel Association deputy secretary-general Li Xinchuang said last month.

For foreign steel makers such as ArcelorMittal, their ambitions in China have been curtailed amid the steel ban.

Luxembourg-based ArcelorMittal in 2008 shelved a plan to take majority control of nonstate China Oriental Group after failing to win approval. China in 2009 rejected a plan by Russia’s Evraz Group to take 51% of Delong Holdings. Evraz has a 15% stake in Delong, Bloomberg