

EUROMETAL CONGRESS

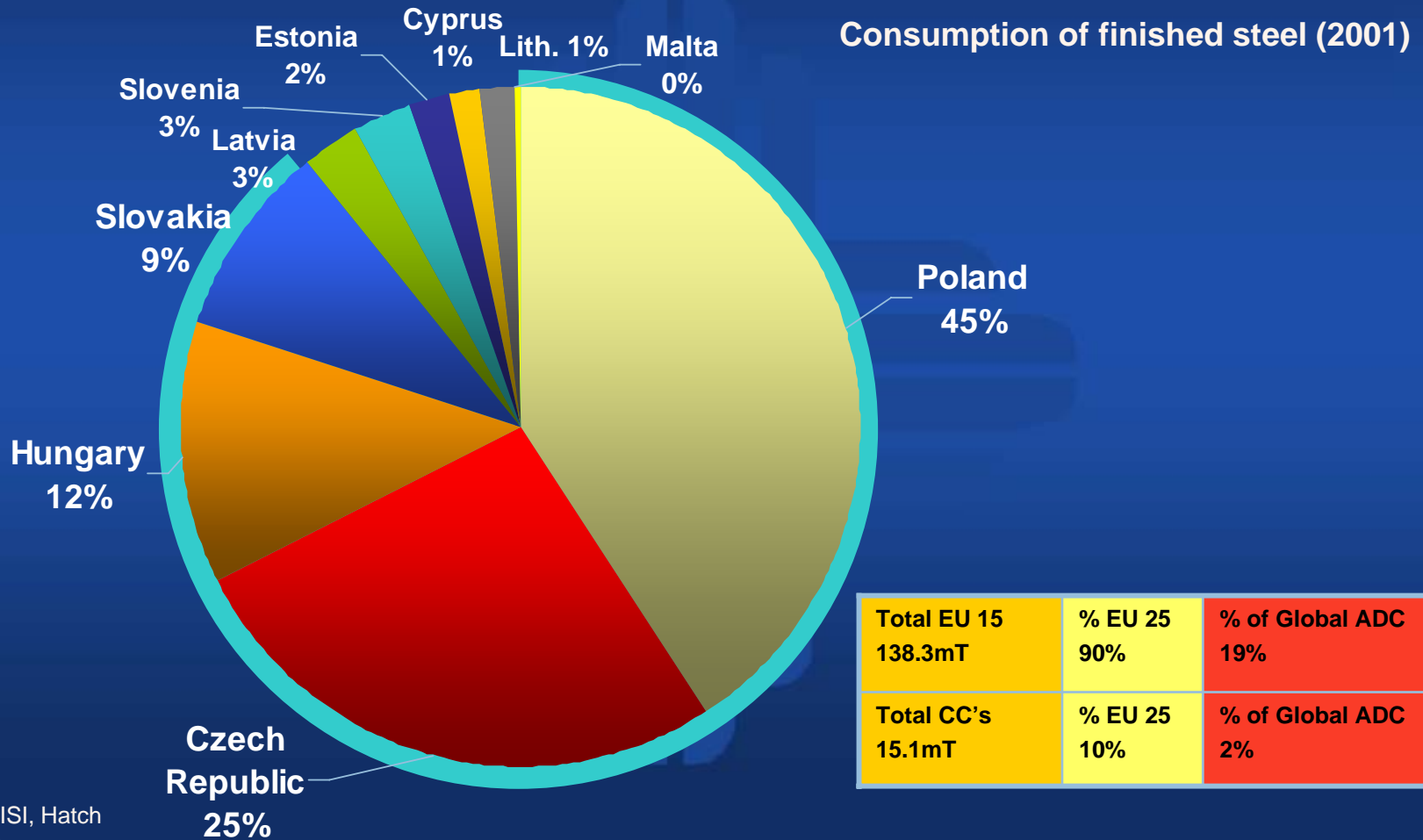


WARSAW 18-20 MAY 2003

The Long-Term Outlook for Steel Consumption in the Enlarged EU

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Four countries account for over 90% of steel consumption in the 10 candidate countries (CC's) to enter in 2004

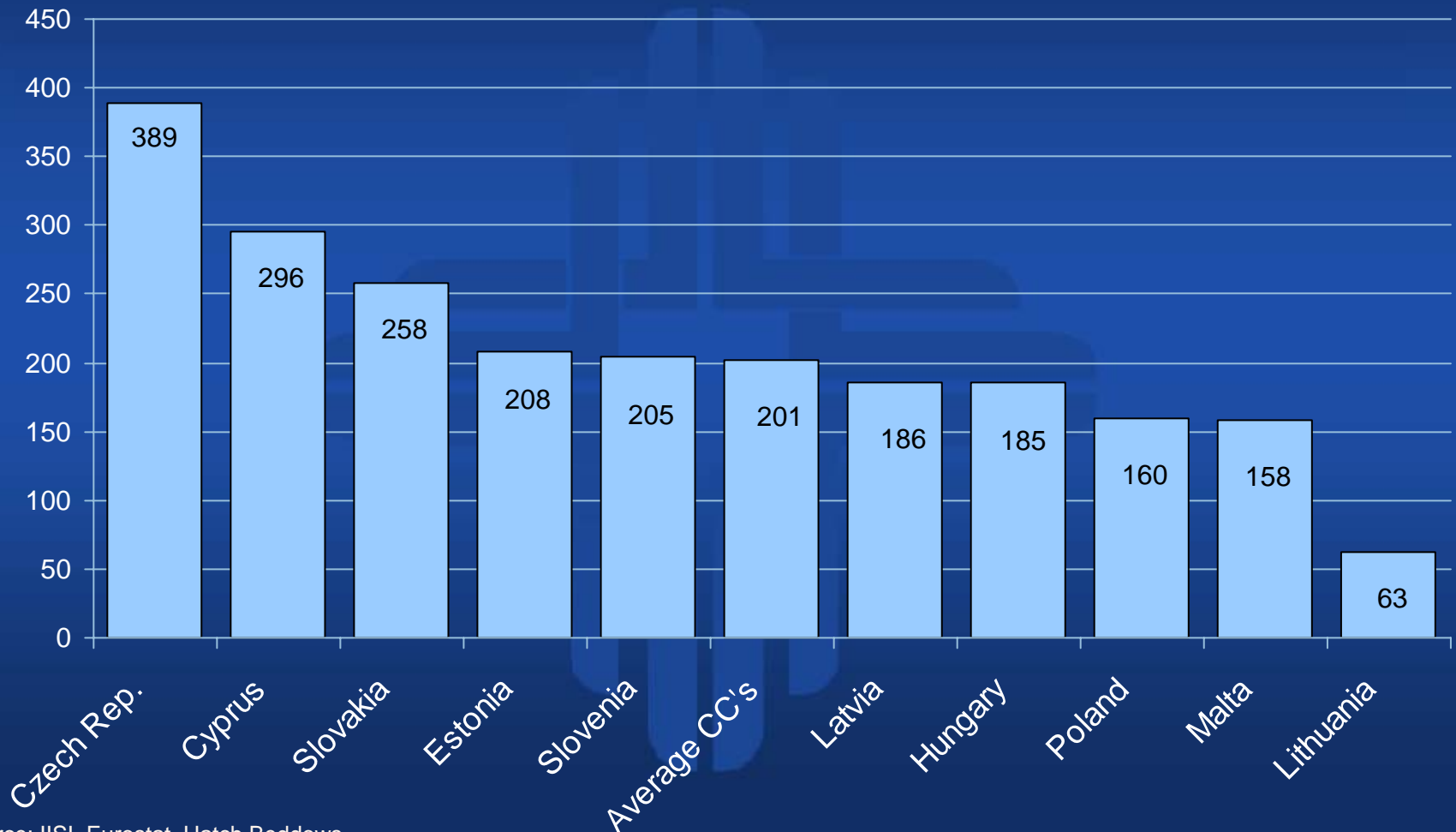


Source: IISI, Hatch Beddows

However, two of the big 4 - Poland and Hungary - have a relatively low consumption of steel per head of the population

Kg of steel per capita

Steel consumption per capita in CC's (2001)

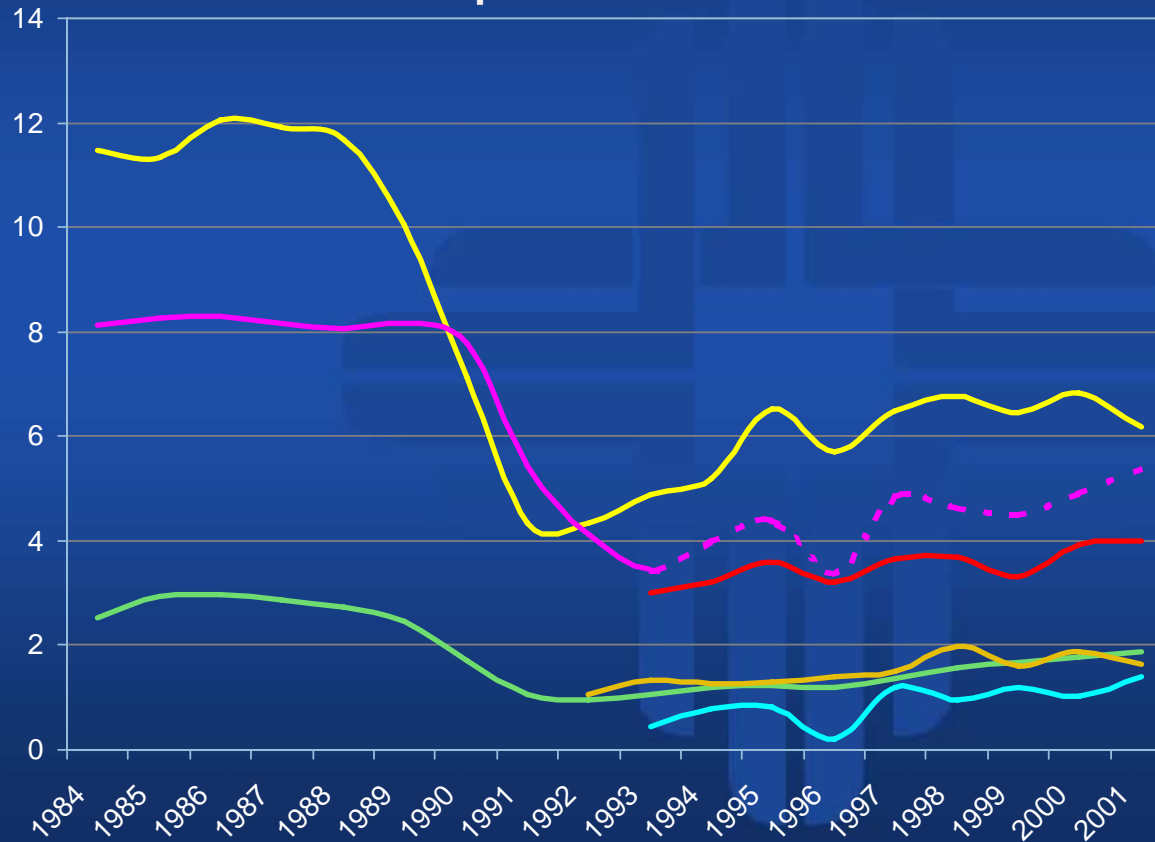


Source: IISI, Eurostat, Hatch Beddows

Steel consumption in the acceding countries has shown firm growth since 1992, but consumption is still only at 60% of levels seen in 1988

m tonnes

Consumption of finished steel

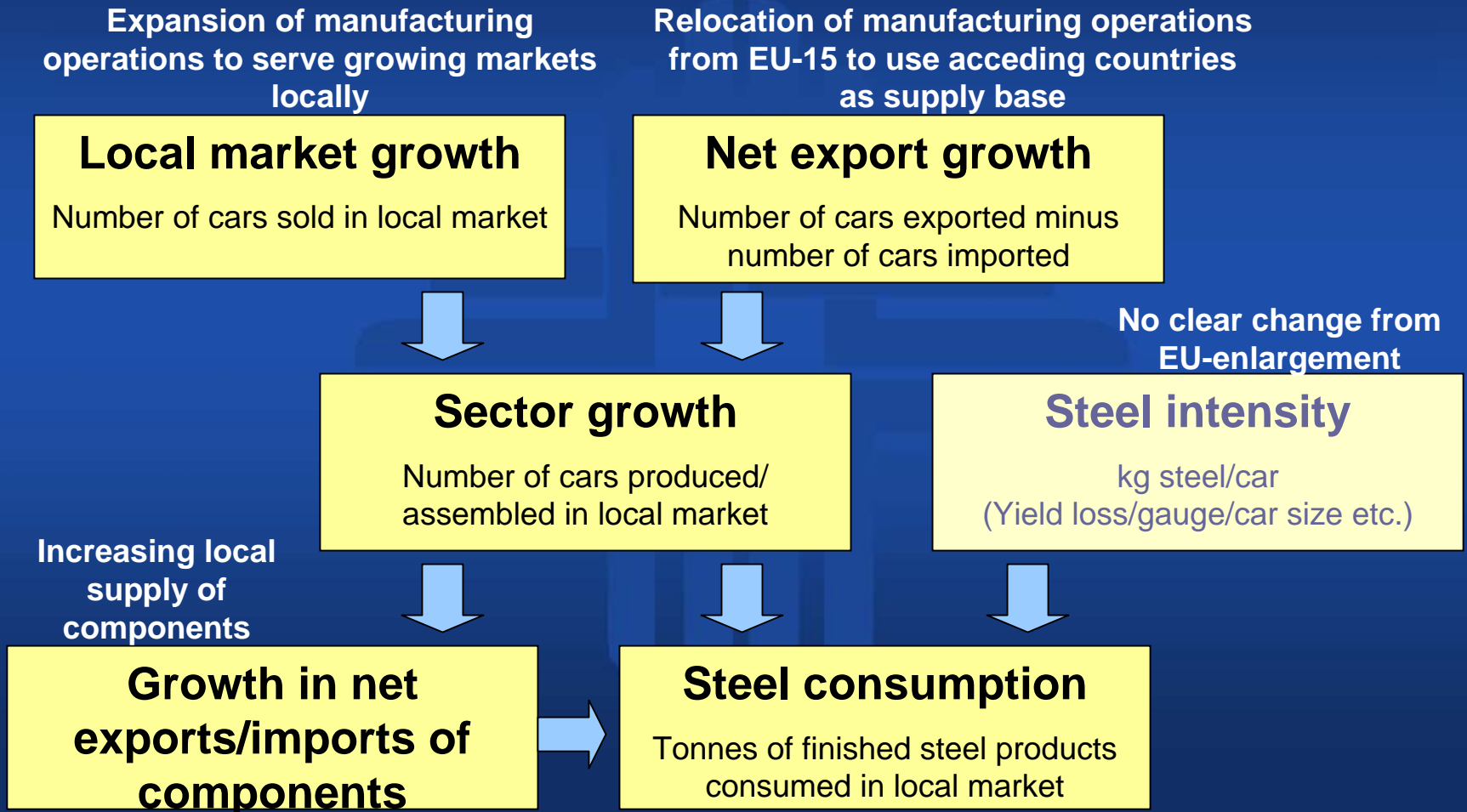


CAGR
(1992 – 2001)

Poland	4.0%
Czechoslovakia (Czech Rep. & Slovakia from Dec. 1992)	2.5%
Czech Republic	2.5%
Hungary	8.4%
Other	5.0%
Slovakia	4.3%

Source: IISI, Hatch Beddows

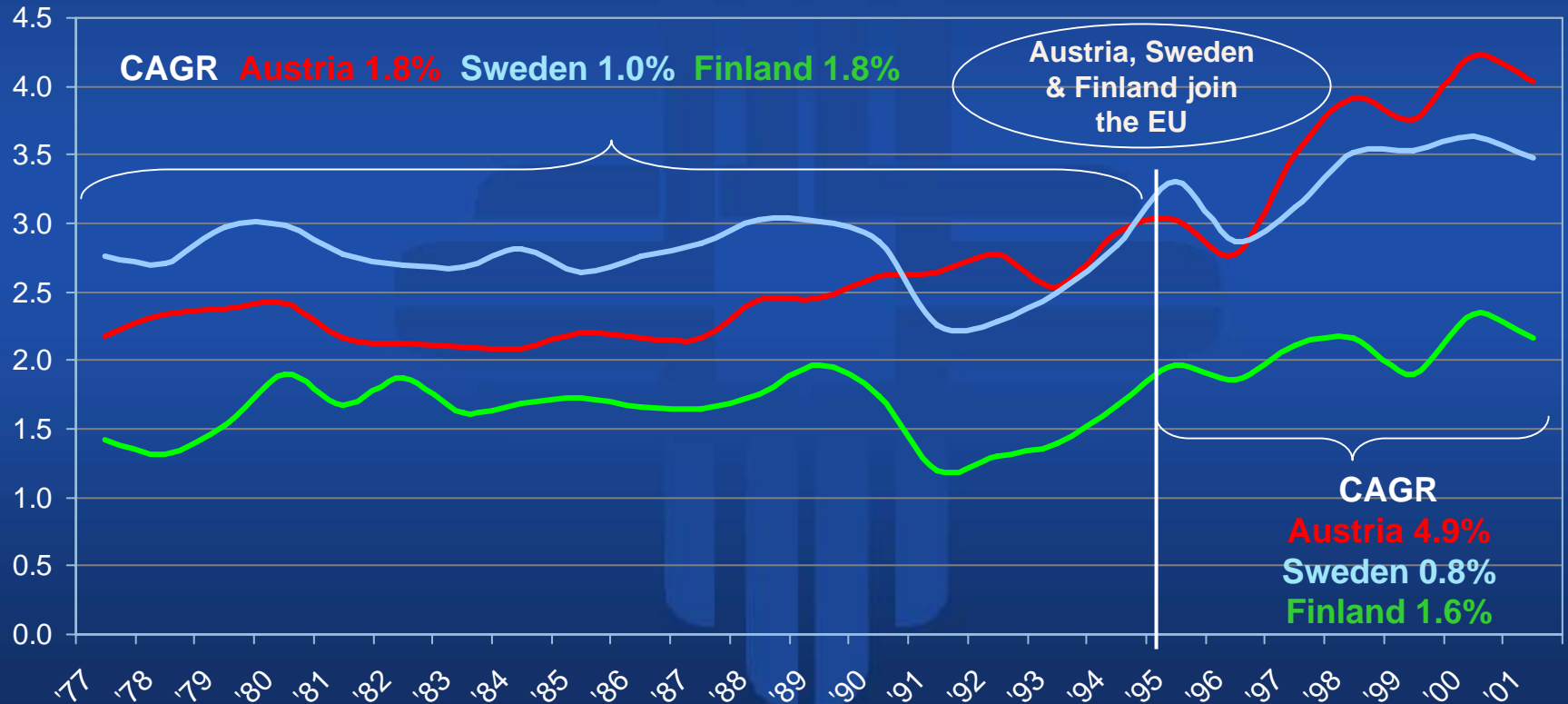
What are the drivers of steel consumption in the CC's and how will they change as a result of the EU-enlargement?



Austria, Sweden and Finland were fully developed countries when they joined the EU in 1995. Only Austria is showing clear evidence of faster growth in steel consumption after 1995

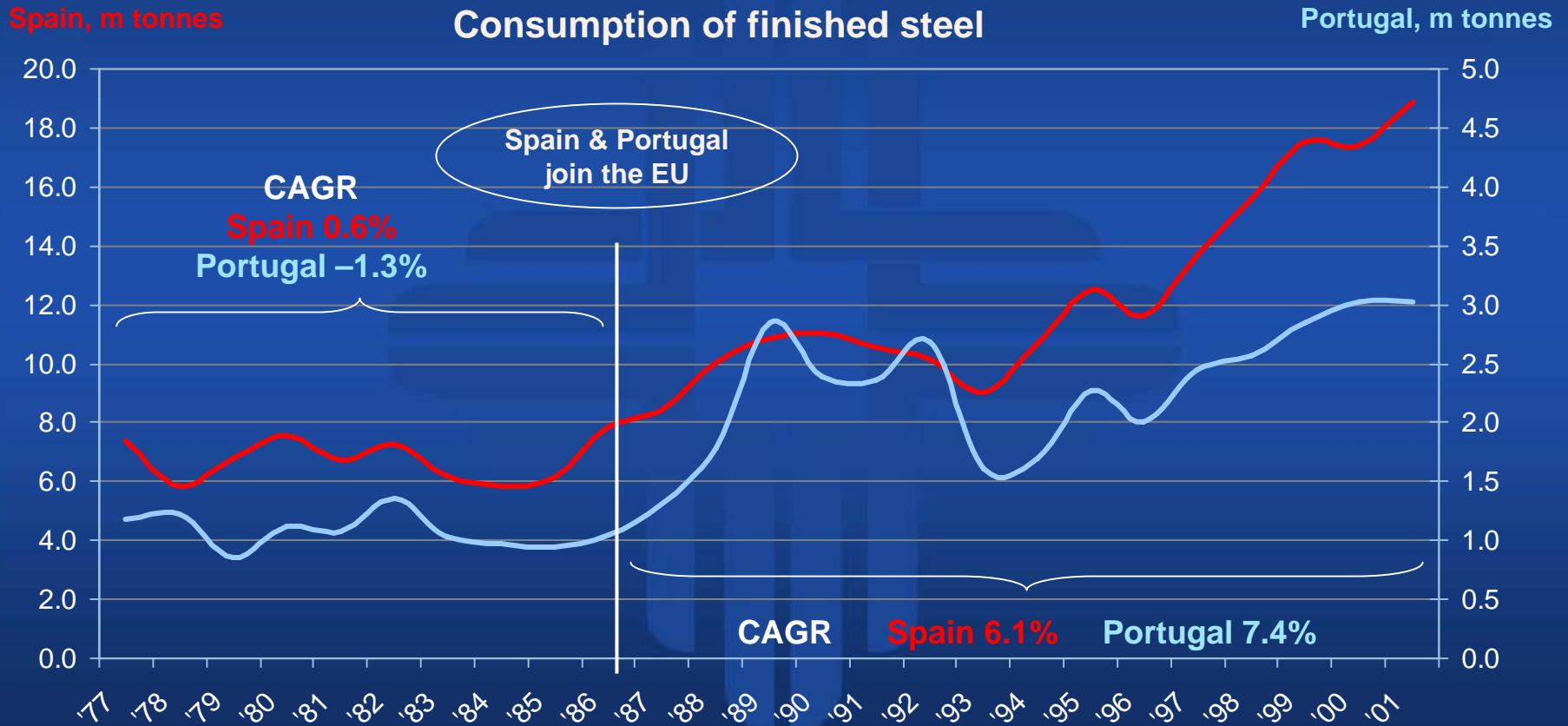
m tonnes

Consumption of finished steel



Source: IISI, Hatch Beddows

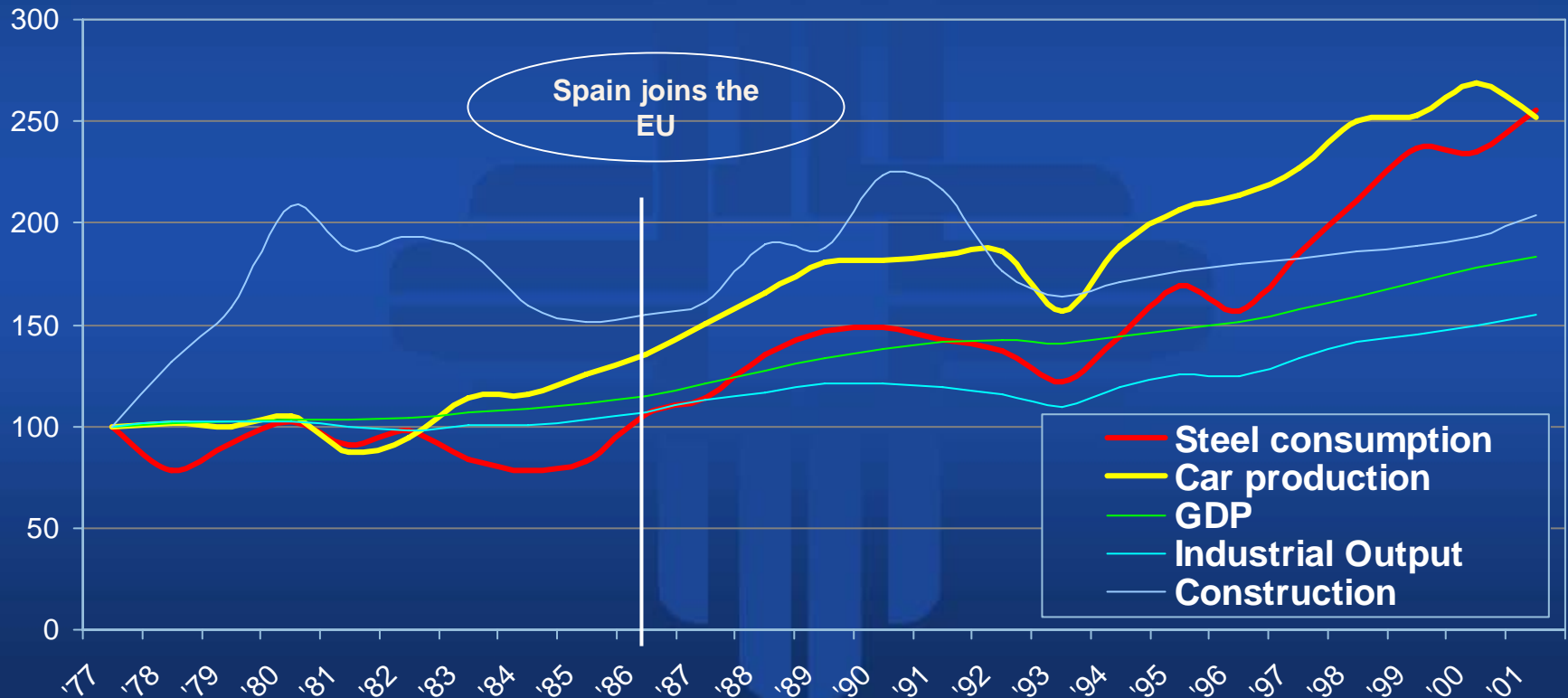
Spain and Portugal were considerably less developed when they joined the EU in 1986, and both countries have since seen strong growth in steel consumption



Source: IISI, Hatch Beddows

The automotive industry has been the main driver of steel consumption growth in Spain, which has become a considerable net exporter of cars

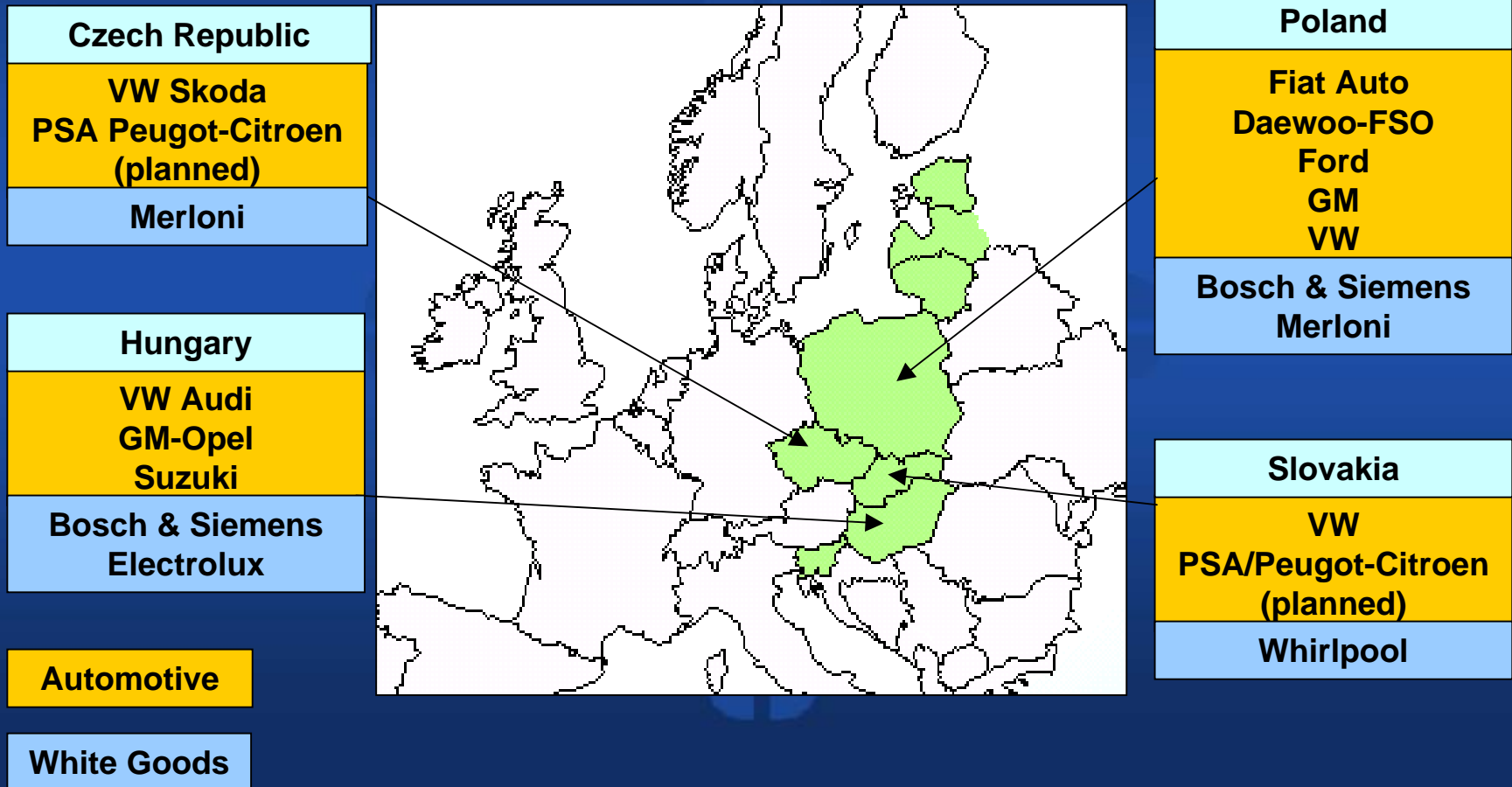
Indexed value (1977=100)



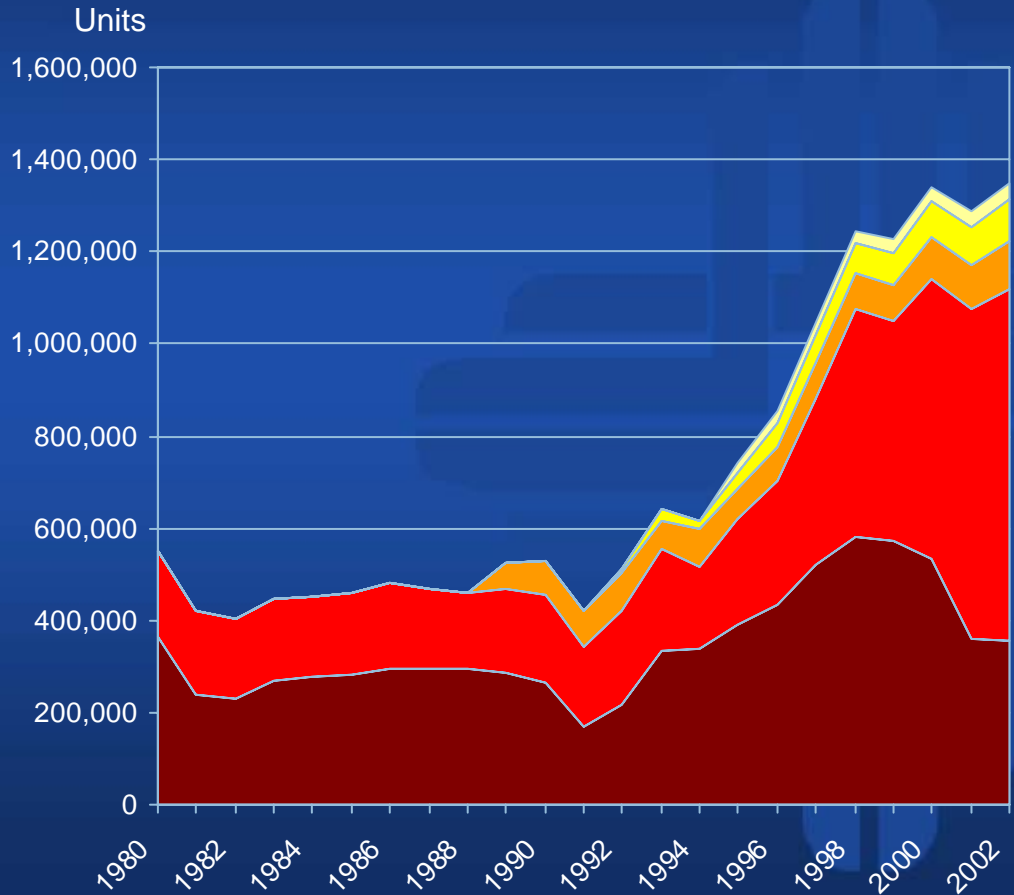
Source: IISI, Euromonitor, Hatch Beddows

Note: Construction is based on completion of residential houses

Foreign manufacturers are already present in the CC's and integration of these countries into the EU will undoubtedly increase this presence



Production of cars in the CC's is increasing rapidly. Poland has suffered a setback, while the Czech Republic has seen sharp growth



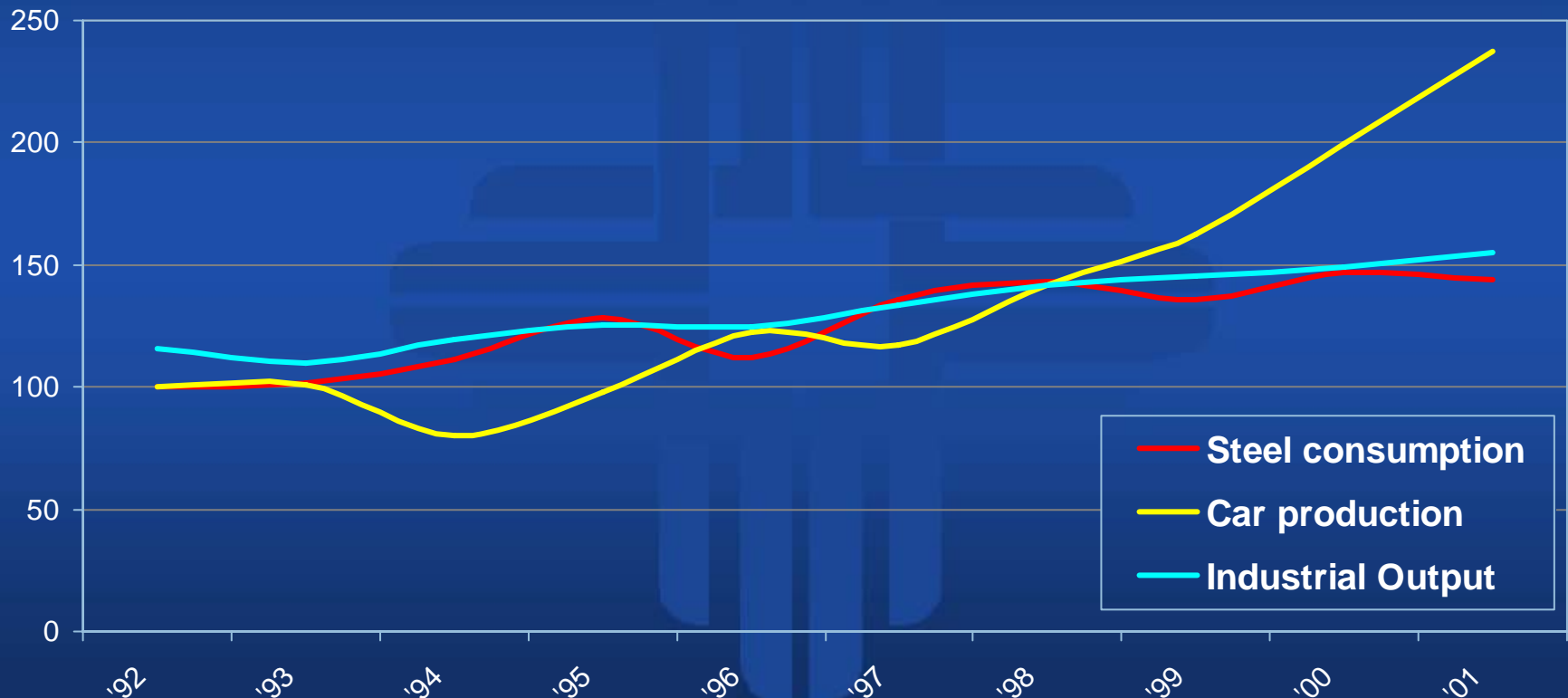
Production share
1980 2002

■ Slovakia	0%	3%
■ Hungary	0%	7%
■ Slovenia	0%	8%
■ Czech Republic	34%	57%
■ Poland	66%	26%

Source: Euromonitor

However, the growth in car output does so far not appear to have a significant effect on steel consumption in the region, which is currently much dependent on construction

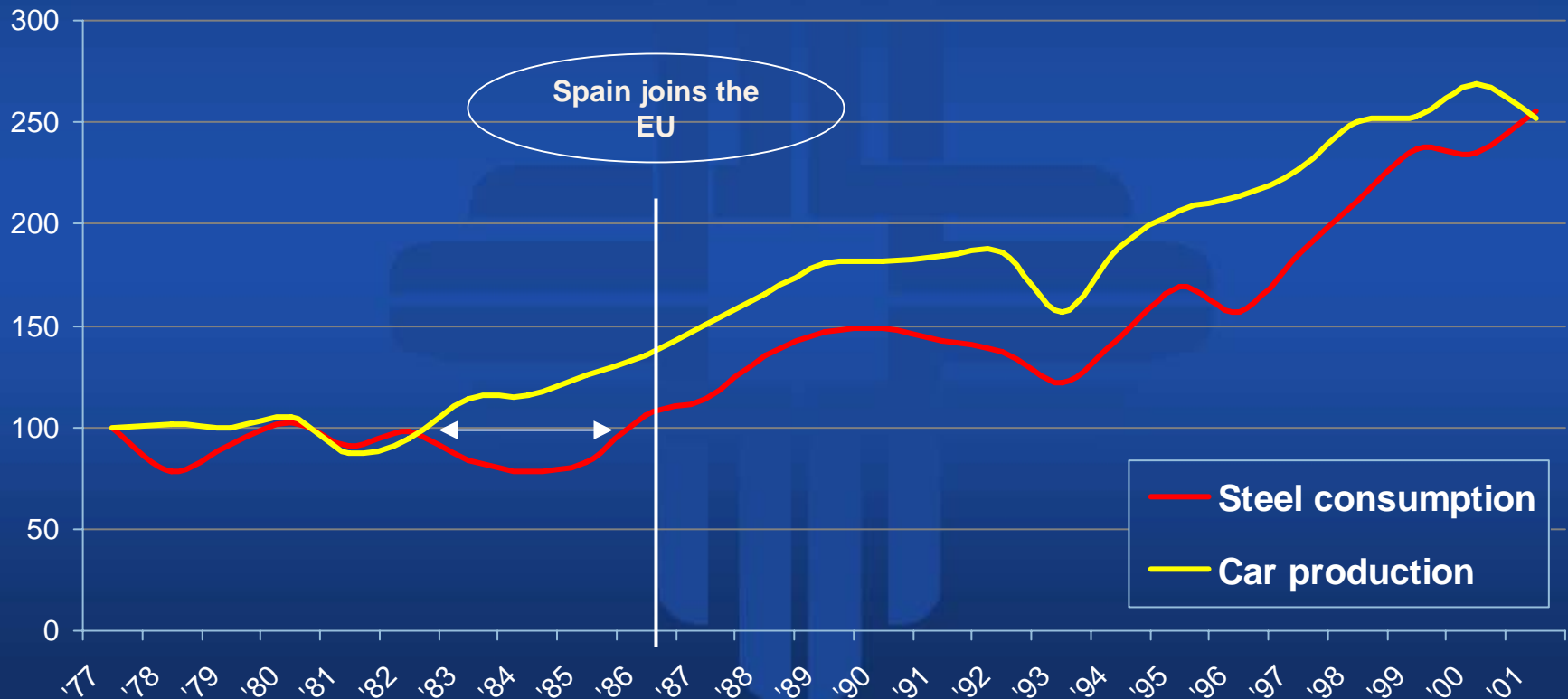
Indexed value (1977=100)



Source: IISI, Euromonitor, Hatch Beddows

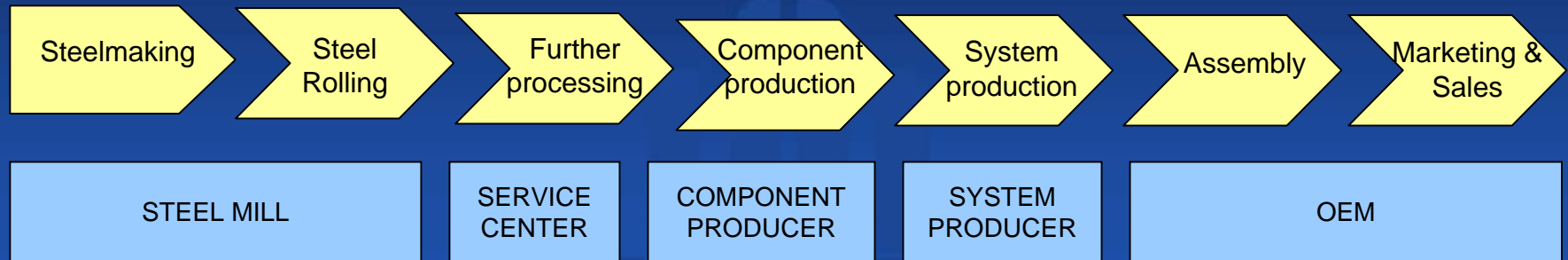
In addition, there is a delay between end-use market developments and steel consumption. A similar development was seen in Spain in the years before its accession to the EU.

Indexed value (1977=100)



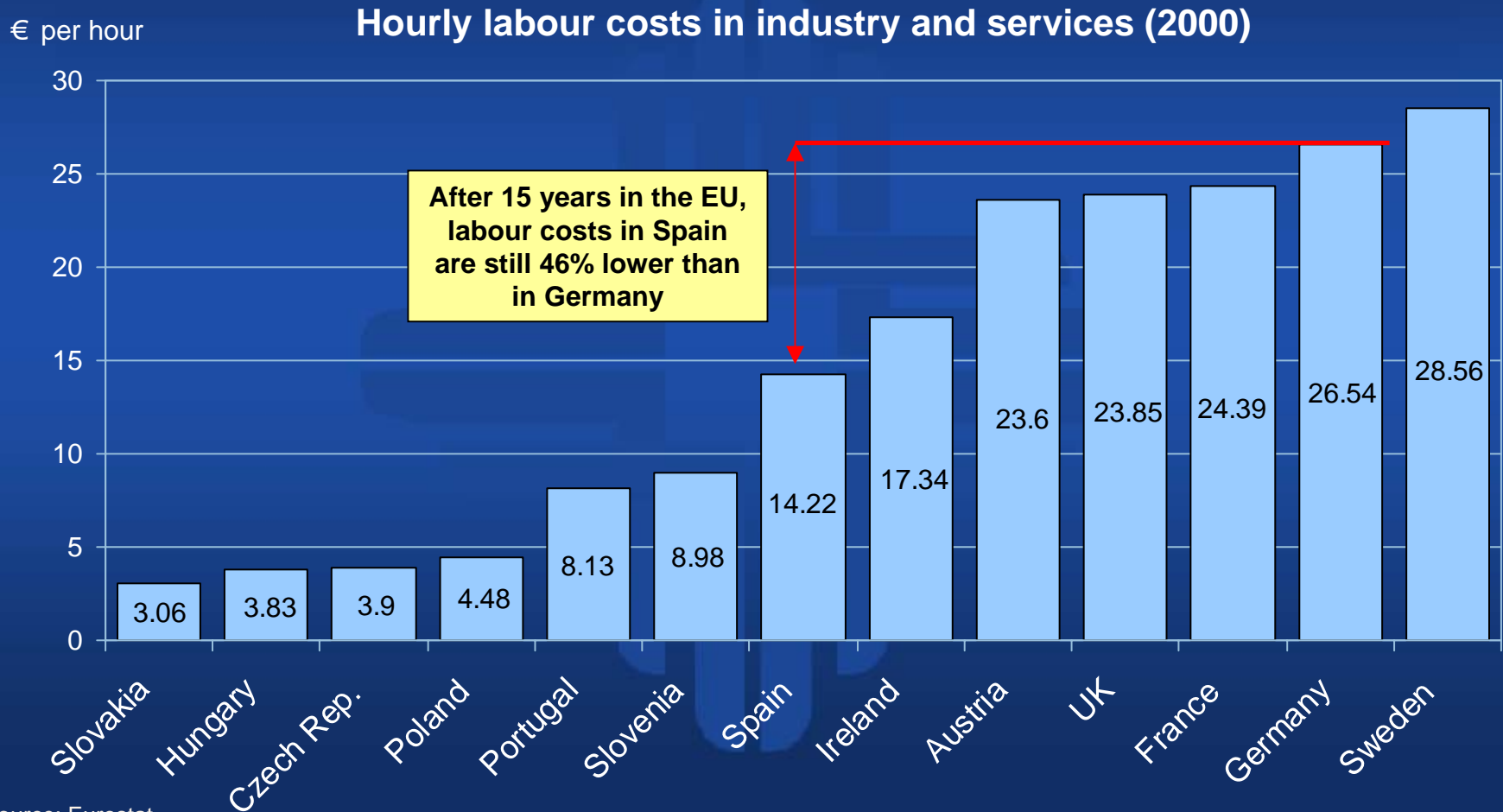
Source: IISI, Euromonitor, Hatch Beddows

The real benefit to local steel consumption resulting from expansions in manufacturing operations will take time and effort to materialise



- Finished steel products are consumed at different stages in the supply chain and at different locations.
- The OEM's are usually the first to (re)locate, with the rest of the supply chain gradually following.
- Many components and processed steel products are initially sourced from known suppliers in Western Europe. This means that much of the steel is processed and consumed in the EU-15.
- As suppliers follow their clients eastwards, and local quality standards improve, steel will increasingly be processed and consumed in the CC's.

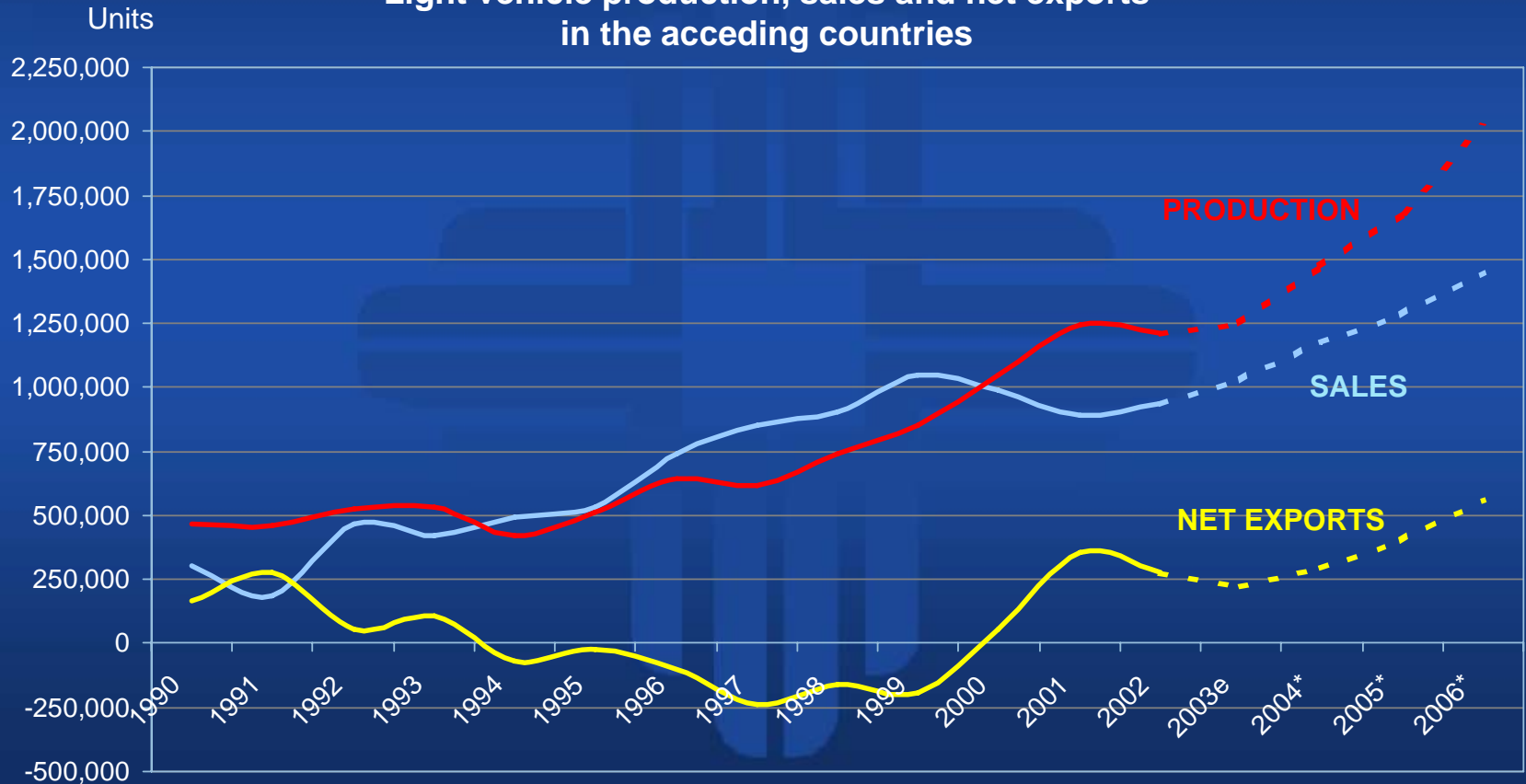
However, the CC's do hold an important long-term competitive advantage in having a skilled workforce at low wages...



Source: Eurostat

And they are already being used as a base to supply other regions, mainly the current EU-15. Since 2000, the group of countries is a net exporter of cars

Light vehicle production, sales and net exports in the acceding countries

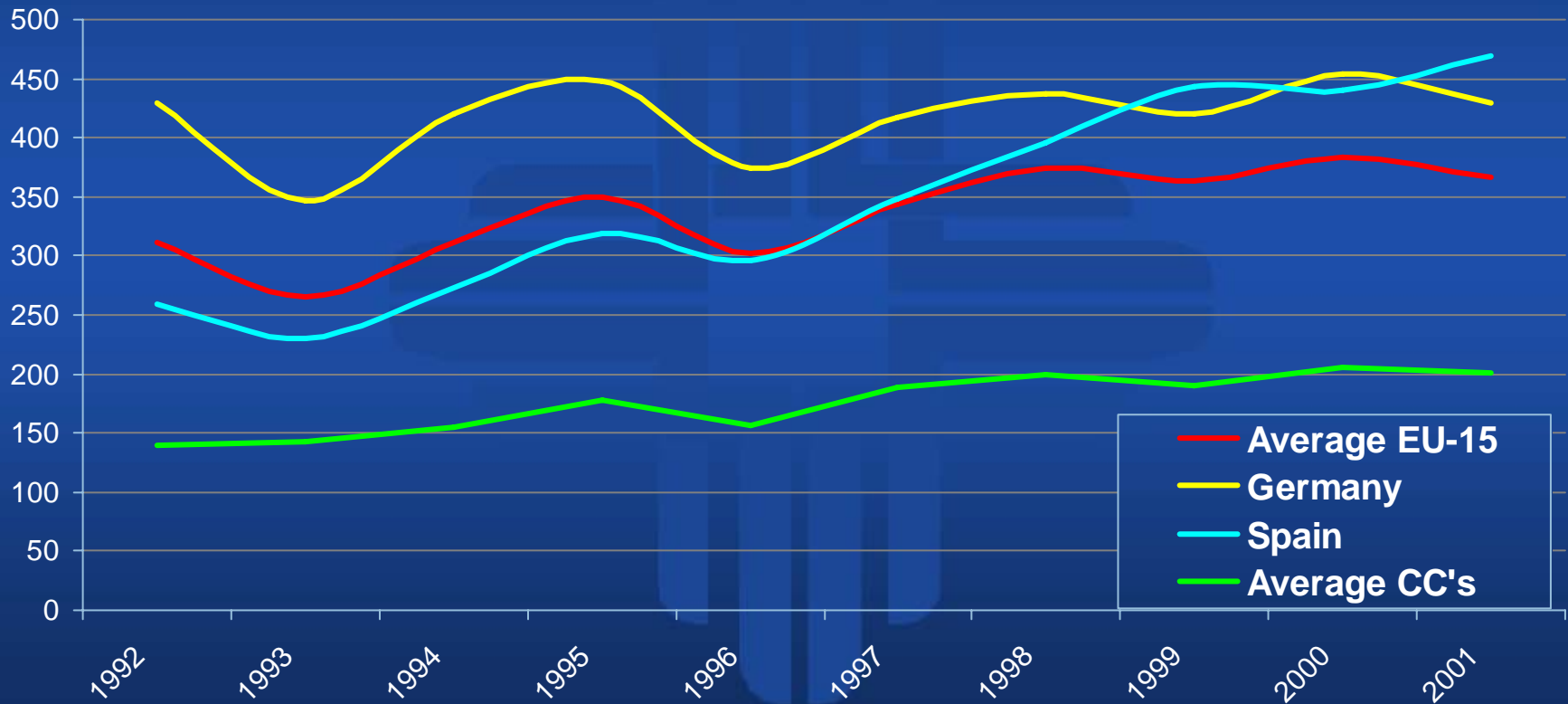


Source: Auto Industry, forecasts 2002 - 2006: auto- JD Power, sales- Autofacts

Will the CC's see steel consumption per head increase to EU-15 levels ?

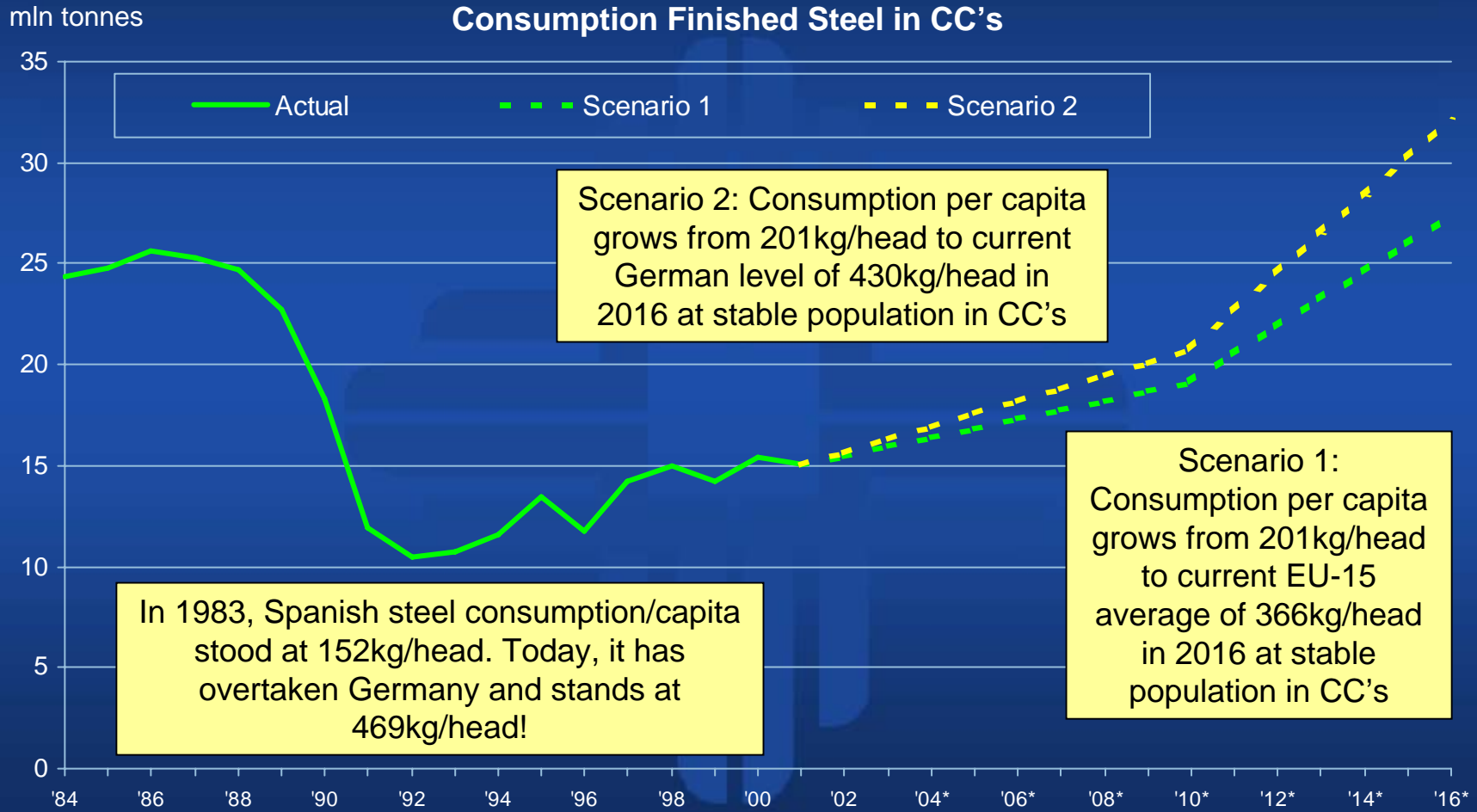
Kg of steel per capita

Steel consumption per capita



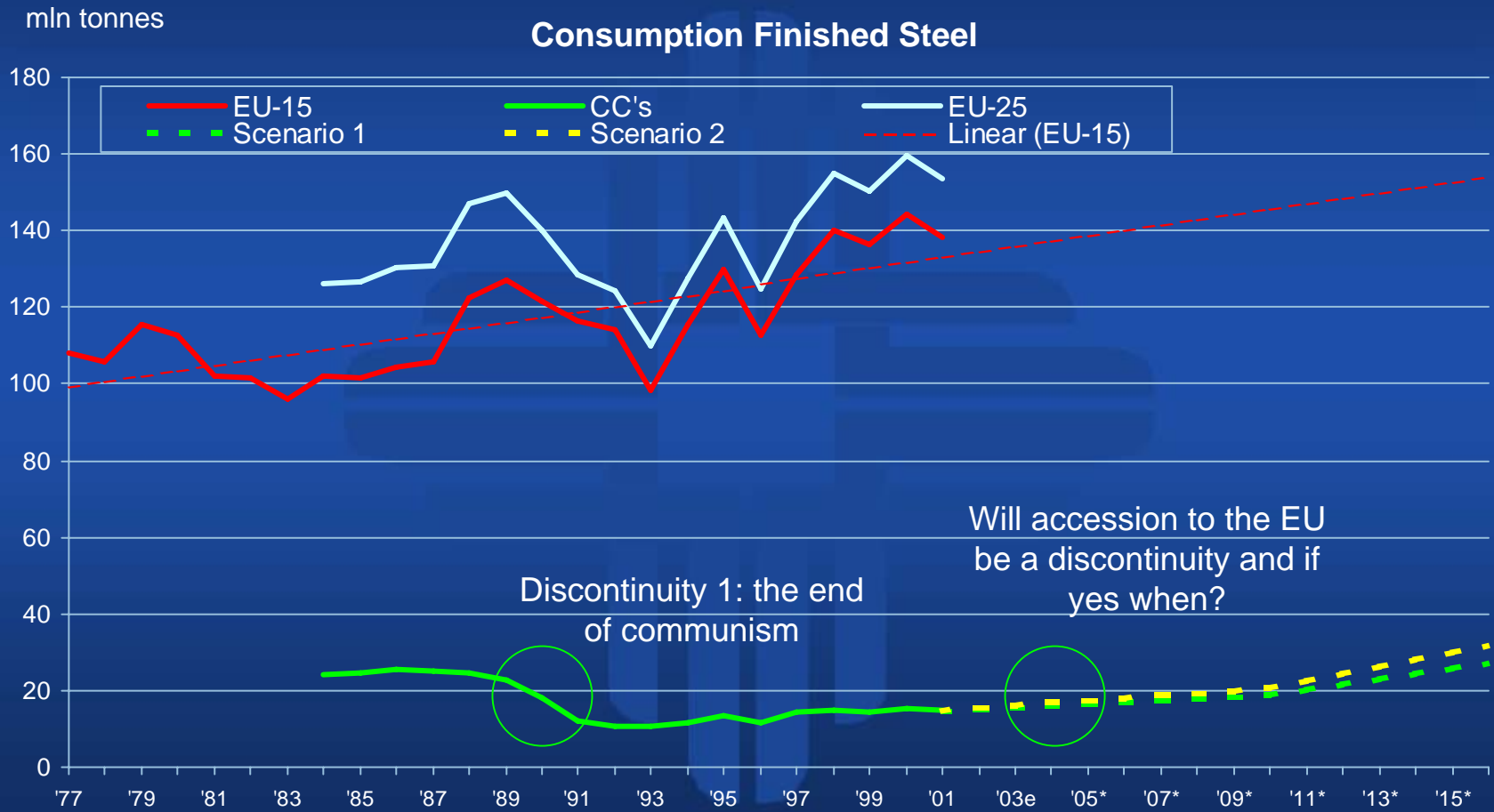
Source: IISI, Euromonitor, Hatch Beddows

If they will, steel consumption could grow as follows:



Source: IISI, Hatch Beddows

However, the effect on the EU-25 as a whole is likely to remain limited. In 2001, total steel consumption in the CC's was lower than that of France.



Source: IISI, Hatch Beddows

Note: EU-15 includes all current members in all years

Conclusion: Steel consumption in the CC's could see strong future growth, accelerated by integration of the countries into the EU. But who will benefit from this potential?

- Accelerated economic development and an increasing role as a supply base to Western Europe are likely to require significant supplies of finished and processed steel products in the CC's.
- Consumption of steel will only increase if consumer products and components are produced locally.
- Quality standards will need to rise.
- Wages are lower than in the EU-15, but productivity as well. How will the cost of labour per unit output develop in the years ahead?
- If quality and cost are uncompetitive, the CC's will be squeezed between high quality imports from the EU-15 and cheaper imports from the CIS, Bulgaria, Romania and Turkey.
- The restructuring and modernisation of the steel sectors in the CC's is essential. Investments in assets and know-how by foreign companies can lead to rapid improvements in quality and productivity, as shown by USSK.

Thank you for your attention!

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