World's largest steelmaker in $33 billion takeover bid for the second largest

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A massive takeover bid, upped last week by 34 percent to 25.8 euros ($US33 billion), is currently underway by the world's largest steel producer, Mittal Steel, for the world's second largest, Arcelor. If successful, the massive new conglomerate would have an annual output of around 110 million tonnes or about 10 percent of world steel production—three to four times that of its nearest rivals. With annual sales of $69 billion and 320,000 employees worldwide, it would be the leading steelmaker in five of the world's nine major markets.

The hostile bid, launched in January, has produced bitter opposition from European governments and major manufacturers. Arcelor has a long association with and is headquartered in Luxembourg where the government is the largest shareholder with a 5.6 percent stake. The corporation is a major producer for European industry and is still Luxembourg's single largest employer. It employs around 96,000 workers, including 15,000 in Spain and more than 26,000 in France.

Mittal Steel is a huge conglomerate built and controlled by Lakshmi Mittal and his family. The corporation is registered in Rotterdam, is listed on the Netherlands and New York stock exchanges and has operations throughout much of the world. While Mittal was born in India and holds an Indian passport, he lives in London. Currently his company has no production facilities in India although last October it signed a deal to invest of $9 billion in a steel mill in the Indian state of Jharkhand.

Even though Mittal has few connections with India, the European reaction to the bid has been tinged with racism. Publicly the governments of Luxembourg, France and Belgium have raised objections about possible job losses. Their underlying concern, however, is that a key strategic component of European industry will pass into the hands of a corporation, owned by an Indian, that has a record of predatory takeovers, restructuring and profiteering.

Luxembourg Prime Minister Jean-Claude Juncker declared in February that the hostile takeover called for a reaction that was at least as hostile. He described the bid as "not compatible" with the way Europeans viewed globalisation. "On the question of governance, we see notable differences" between Mittal's practices and Arcelor's, he said.

French President Jacque Chirac raised the issue during his visit to India in February. He denied that there was any European opposition to a foreign company buying a European one. "All we know is that we face a situation where a hostile bid has been mounted that is purely financial in character, devoid of all industrial intent and without the customary prior consultation," he said.

In early March, the French government criticised the bid for not having an adequate plan. Mittal responded to these criticisms with a 116-page outline of the company's plans which was sent to the governments of Belgium, Spain, France and Luxembourg. The plan, which was leaked to the French press, stated the combined group would have the capacity to produce 150 to 200 million tonnes by 2015.

The Indian government has strongly supported the takeover bid, even though Mittal is not based in India. In 2005 Indian companies were involved in about 100 overseas acquisitions estimated at $2.37 billion compared with 60 deals worth $1.7 billion in 2004. Purchases appear to be accelerating again this year. In April, wind-turbine manufacturer Suzlon Energy bought the Belgium firm Hansen Transmissions International for $520 million. In what was reportedly the largest-ever foreign takeover by an Indian firm, Dr. Reddy's Laboratories spent $570 million to purchase German drug maker Betapharm.

The concern in New Delhi is that European governments may try to block the expansion of Indian corporations. India's Trade and Industry Minister Kamal Nath accused European critics of racism, saying: "This is an era of globalisation, cross-border investment and liberalisation, not one in which investors are judged by the colour of their skin in breach of... national treatment rules." The *Financial Times* commented: "Mr Nath's intervention reflects growing concern in India that non-tariff barriers are being erected across Europe and the US that will slow its emergence as a global economic powerhouse."

The Luxembourg government considered a proposal by the Chamber of Commerce in March to require Mittal to make a full cash offer, instead of cash and shares. The country's finance ministry also proposed an alternative bill that would prevent any changes to a hostile bid for 12 months. Both bills would have effectively blocked the Mittal offer, but were rejected. Luxembourg also softened its stance towards New

Delhi, sending a delegation to India to explain its opposition to the bid.

Arcelor management has continued to oppose the takeover. In April, the company proposed placing its recently purchased Canadian steelmaker Dofasco in a trust that could not be sold—creating regulatory problems for Mittal in North America if the takeover were successful. In late April, Arcelor chairman Joseph Kinsch declared: “We are involved in a war. We do not show our weapons. But we are very active and, believe me, we have a lot of imagination. We have not used up all our ammunition. But I cannot say more.”

This month the takeover got underway in earnest after being cleared by European regulatory authorities. The bid is being fuelled by vast changes in global production processes connected to the emergence of China and India as major cheap labour platforms. China’s share of world steel consumption rose from 18 percent in 2000 to 30 percent in 2005 and is anticipated to grow further. B. Muthuraman, the head of India’s largest steelmaker Tata Steel, predicted recently that India and China could easily account for 60 percent of world steel consumption in coming years. China’s demand for steel has helped drive up steel prices, from around $280 a tonne in early 2002 to $550 a tonne.

An article in *Time* in February noted that steel production could no longer be nationally, or even European based. “With the emergence of China, India and Brazil as fast-growing world economic forces, demand for all sorts of basic materials from oil to platinum has been on the rise... In this new world, location is less important than cost efficiency, and highly mobile investors and entrepreneurs such as Mittal—an Indian national, based in London, with a company headquartered in the Netherlands—are making the rules. Even in Paris, amid official fury and calls for the deal to be blocked, some acknowledged that the tide of history is turning against the old habit of looking at business in purely national or European terms.”

In a press conference last week, Mittal declared that the steel industry had to consolidate or die, and that Europe would realise he was right at some point. “Since we announced the first offer, we have been in constant dialogue with all of the governments. The Belgians have now agreed that it makes sense. France and Luxembourg are examining it... There was a strong reaction at the beginning but the tone has changed.”

Mittal Steel is the product of this consolidation. Through a series of mergers and acquisitions, the company has mushroomed in a decade and a half, expanding its output one hundred fold from 420 million tonnes in 1989 to over 42,000 million tonnes in 2004. In the 1990s, the corporation exploited the massive wave of privatisations in Eastern Europe and the former Soviet Union to buy up steel mills cheaply and ruthlessly restructure their operations. The mill in Kazakhstan bought in 1995 employs 50,000 people and makes substantial profits by supplying steel to China.

In 2004, Mittel bought the US-based International Steel Group, which was itself a merger of Bethlehem, Weirton and LTV. The company now operates in 14 countries including France, Germany, Poland, Canada, Mexico, South Africa and Algeria. Likewise, Arcelor expanded three years ago through the amalgamation of mills in Spain, France and Germany.

Mittal Steel also owns a number of iron ore mines. According to its bid document, it will be 50 percent self-sufficient in iron ore by 2010. Iron ore prices have followed steel prices. Last year iron ore prices to China rose by over 70 percent. The ability of a combined Mittal/Arcelor group to insulate itself from the rising price of raw materials would place it in a strong position in global markets.

Lakshmi Mittal has reaped a huge personal fortune. According to *Forbes Magazine*, he is the world’s third richest man with wealth estimated at $25 billion—only fractionally below Luxembourg’s GDP of $28 billion. He was top of the *Times* rich list for Britain published at the end of April. Mittal is one of the British businessmen involved in the Labour government’s money-for-influence scandal. In 2001 Prime Minister Tony Blair signed a letter supporting Mittel’s bid for a Romanian steelmaker less than a month after he had made a donation of £125,000 to the Labour Party.

Whatever the immediate outcome of the Mittal takeover bid, it points to the massive ongoing rationalisation of industry being driven by global economic forces. Huge entities such as Mittal Steel seek to overcome the irrationality of the market by establishing a monopoly in their economic sphere and organising their operations globally in the most efficient manner. Under capitalism, the result is inevitably huge job losses and intensified exploitation of the workforce. It also lays the basis, however, for global economic planning, which, under socialism, would be used to meet humanity’s social needs, rather than profits for the wealthy few.