

**ADDRESS TO IISI WORLD STEEL INDUSTRY CONFERENCE  
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**BUILDING THE SIX PILLARS OF A WISER,  
STRONGER STEEL INDUSTRY**

## **Introduction**

Ladies and Gentlemen,

It is four years since I first addressed our Institute, when IISI 34 was held in Melbourne, Australia. At that time, just after the 2000 Sydney Olympics, steel was heading toward the bottom of the cycle.

I'm sure you can recall the mood that shrouded our industry. I do not think a single analyst had a "buy" on any steel company.

Needless to say, the changes that have occurred since then have been profound. With prices now at new highs, and the world's hunger for steel showing no signs of abating, the turn-around has indeed been remarkable.

Four years ago in Melbourne, who among us would have predicted such optimism, so soon?

So I think it is fair to say that for the moment, our industry is perceived as dynamic. In the short-term, the outlook for our industry is positive.

**However, despite the current good times, our long-term outlook will only remain positive if we use our current prosperity to address the challenges that face us.**

*(slide 2)*

What are these challenges?

Firstly, the structure of the global steel industry remains too fragmented.

Second, the investment industry continues to view our business as highly volatile – a view that our current successes only serve to reinforce.

Third, far too much of the rent in the steel supply chain is going to the suppliers of raw materials.

So while China is driving demand at present - accounting for three-quarters of the increase in global steel production since 2001 – we cannot rely on growth from China, alone, if we are to fundamentally change our industry.

And if we are to prosper in the long term, the global steel industry must change.

The growth phase we are witnessing in China will not achieve long-term certainty for all of us. We must build this from within our global steel industry.

*(slide 3)*

**Change must come from us. If not from those of you in this room, then from whom?**

We need to learn from the lessons of the past.

We need to improve the effectiveness of our industry.

Now is the time for us to take control of our industry's future.

**If we are to prosper in the long term, I believe that as an industry, we must be wiser in our approach and make fundamental changes today in order to be stronger tomorrow.**

To be wiser is to become more responsive to the market place. More trusted by investors. More valued by the communities in which we do business.

To be stronger is to be less susceptible to the ebb and flow of the steel and economic cycles.

How do we achieve this?

**By directing our energy toward the essential support structures of a renewed and sustainable steel industry.**

I believe there are six areas we need to focus on. Six pillars that we must build.

*(slide 4)*

**The first is the reshaping - the restructuring – of our industry**

***1. Restructure***

**Consolidation will strengthen our industry.**

We have seen other industries become revitalised by consolidation. The oil industry, aluminium in the early 1990s and iron ore in the late 1990s are cases in point.

By contrast, steel is still emerging from the national identity paradigm of the last century, where every country wanted at least one major steel company.

Today, Europe is leading the way in steel industry consolidation. There are also encouraging signs in the USA and North Asia. Yet some hurdles remain.

For example, in the USA, strong barriers continue to block closure of inefficient steelmaking operations.

If we are to become stronger as an industry, the closure of long-term uneconomic capacity must be advanced. Uneconomic capacity must not be further underwritten during times of strong market conditions.

While we can expect growth in demand to stimulate new steel capacity, we must be aware of the long-term effects of increased capacity if it is not confined to growing markets. It is distressing to hear in various conversations so many of us again focused on size, on tonnes – rather than markets and returns.

On the positive side, it is clear that most capacity growth is currently occurring in markets where capacity is required, such as China. And we are seeing net closures in slow growth regions. However, we need more vigour, and greater breadth of initiatives, if the industry is to meet the challenge of sustainably matching supply and demand.

**We will also become stronger by forming alliances.**

As I've previously said, global partnerships within our industry will assist us in demonstrating the scale required to attract capital. And global partnerships will give our customers the steel solutions and level of specialisation they need.

**Finally, steel companies must restructure so there is an increased capability and willingness to flex production in response to market signals.**

A restructured steel industry will flex production as demand levels change. It will be market responsive. It will gain strength through this flexibility. It will have the courage to produce less in weaker markets rather than more.

We can restore this ability, this courage. Look to Europe to see how successfully this has been done in 2003 / 2004.

**The second pillar requires a shift of mind-set.**

*(slide 5)*

## ***2. Volatility is the Enemy of our Industry***

Volatility has been the norm for our industry. To become stronger and wiser, we must question this paradigm.

**Volatility discourages investors.**

While the current good times are to be enjoyed, we must bear in mind that the bottom of the most recent down turn was less than three years ago.

Prospective investors are viewing our rapid change of fortunes as more evidence of volatility. Perversely, our current success means that our reputation for unpredictability has increased, and will continue to cloud perceptions of our companies' worth.

We must build financial sustainability.

The ongoing requirement to attract significant amounts of capital simply to achieve necessary blast furnace re-lines demonstrates how critical this is.

**Volatility also hinders new applications.**

We cannot penetrate and entrench steel in new market applications if price and availability are uncertain. Yet we must create and nurture demand in new markets if we are to diminish the cyclical nature that impedes us.

**The third pillar is to change our raw materials situation.**

*(slide 6)*

**2. Change Raw Materials Situation**

**Some argue that raw material prices are too high.**

Others contend that the raw materials suppliers are creating the production discipline that we in the steel industry do not naturally possess. Perhaps they are correct?

Scrap, pig iron, DRI, coking coal, natural gas and fuel oil, as well as transport, have all shown major cost increases.

A recent report from the United States said that since 2002, raw material and energy costs for integrated mills have risen by between 53 and 74 percent, depending on the level of integration.

Mini-mills have experienced raw material and energy cost increases of between 116 and 119 per cent.

Clearly, too much rent in the supply chain is going to raw materials.

**How do we address this situation?**

By expanding our raw materials base.

Basic economics suggests that those steel companies with the capital and capability should consider investing in raw materials. We can help overcome raw materials consolidation by again growing steel industry-owned operations.

There are better returns available in raw materials, even today, than in any part of the steel industry. And investors consistently value these earnings more highly.

We should also encourage new entrants as raw material suppliers, and provide the opportunity for them to participate in the business of supplying our companies.

However, the current pricing situation cannot be solved by the steel industry alone.

Raw material suppliers must also be responsible in their pricing.

Raw material suppliers must understand that they and the steel industry are competing inter-materially against aluminium, concrete, wood, plastics and so forth. If, because of raw material pricing, people stop choosing steel, we all lose.

Further, high raw material prices threaten the new application potential that is so vital to our industry's future. Again, we all lose.

A win-win is the *only* workable outcome for this situation. Therefore, we *and* our raw materials suppliers must make a collective commitment to steel as a material in the modern economy.

**The fourth pillar is to continue our stand against Government and taxpayer funded steel subsidies.**

*(slide 7)*

### ***3. Continue Our Stand Against Steel Subsidies.***

**Government distortion of global steel markets must end.**

We must redress this distortion of global steel economies.

Efficient steel companies without access to subsidies from their own governments continue to be penalised. Any industry that penalises efficiency is undermining its long-term business viability.

So, for the sake of our industry's future, we must stay firmly committed to the success of the Steel Subsidies Agreement negotiations. Your support, echoed in this room yesterday, is critical.

**Now is not the time to change our tune.**

For the most part, we have succeeded in getting governments out of our industry.

In many countries, governments have ceased being owners or operators of steel mills. Privatisation has accelerated. This trend needs to continue.

Our aim must be a globally privatised steel industry, free of the distortions wrought by government intervention.

We must maintain our resolve. Reviewing our position every six months is not the answer.

As long as we maintain uneconomic excess capacity, and as long as our industry creates life-long inefficiencies by subsidising new capacity, we will continue to be defined by headlines that scream ‘protectionism,’ and ‘trade dispute.’

And investors will hesitate to place their long-term capital with us.

**We need to be united on this issue.**

This is not a quick fix.

We must not allow today’s high level of demand to cause us to waver.

Hesitating and stalling are not the answer. Together we must make a proclamation that this is a chance to improve things, permanently.

**The fifth pillar is to spend wisely to strengthen our future.**

*(slide 8)*

***Spend Wisely to Strengthen Our Future***

**How do we use our profits wisely?**

There is no long-term advantage in simply using today’s profits to build more capacity. Or to use capacity to keep making the same products. To do this is to trap ourselves in cyclicity.

We must ensure that we only invest where the economics of this investment make sense at all points in the cycle.

Uneconomic and unsustainable expansions in capacity will only serve to compromise our industry’s long-term health.

Restraint is essential. Exercising restraint will maximise the prospects of investors re-rating steel industry stocks.

At the same time, many established parts of the industry still need restructuring, and we must invest now to achieve this restructuring.

**But now, it is important that we spend to take care of our owners.**

World-wide, our shareholders have been patient. By and large, they have stuck with us for several decades. In return, we have lost them money over the long-term.

If we are to prosper in the long term, we need to re-build shareholder confidence for the long-term.

The profits we have generated should be focused on our investors.

Now, while times are good, we should express our gratitude to our shareholders.

We must reward their faith with capital returns, and with dividends, now.

If we do this, our shareholders will continue to stick with us and the market will reward us.

My own company's experience bears this out. Right from the start, the Board and management of BlueScope Steel have made shareholders our priority.

Our focus has been to tax effectively return funds to shareholders. We have done this by providing attractive, fully franked dividends, and through a share buy-back program, which has boosted earnings per share.

From the company's public listing in July 2002 to 30 September this year, BlueScope Steel achieved a Total Shareholder Return (dividends plus share price appreciation) of 198 per cent.

BlueScope Steel's experience has been that shareholders recognise and reward companies which are focused on shareholder value, and are prepared to return funds to their shareholders.

As an industry, we must not measure our success by how big we are. Return on investment is far more important than size.

**We must also spend to become smarter.**

By investing in innovation – by stimulating new thinking through more and better R&D, we will produce new products, and we will drive steel into new applications more efficiently.

Greater intellectual input will result in added value to our industry. And this will give us a far better future than adding capacity.

So, I emphasise. Let's spend on innovation. On new products, new processes and new applications for steel. We must ensure that we place proper value on the imaginations of our people. They are key company assets.

Let's create the new steel products, and find the new steel applications, that will signify a new steel industry.

**The sixth pillar is a greater awareness of our licence to operate.**

*(slide 9)*

***Re-affirm Our Licence to Operate.***

**We know that our companies do not exist in social or environmental vacuums.**

To be viable, we must reflect the social and environmental values of the communities in which we do business.

And where possible, we should strive to exceed the expectations that are placed upon us.

**In particular, we are obliged to care for our people.**

We must ensure the safety of every employee and contractor. We must be sure that no one leaves our sites in a worse condition than when they arrived.

That is our duty. So what is the reality?

The reality is that every year, more than one hundred people die in our industry. More than one hundred human lives are lost.

This was the position a year ago when we met in Chicago. It remains the position today as we meet in Istanbul.

This is simply not acceptable. We do not have the right to expose our fellow human beings to grief and suffering.

From our discussions, we know that fatalities and safety incidents are down in some of our companies. But in others, a negative trend continues.

I have said before that as Chairman, my hope is that we can reduce fatalities year-over-year by 20 per cent. I dearly hope that, in five years, no one will die because they work in our industry.

Safety is right, and it is good business. I urge you all to spare no effort in Making it Zero fatalities in our industry, within five years.

Progress towards Zero is possible. Some of you will undoubtedly suffer setbacks, but we must persevere towards our goal of Making it Zero fatalities in our industry, within five years.

**We must care for our people, and so must we care for the natural world.**

An environmental threat is an industry threat. The Greenhouse Gas issue and its consequent regulations demand ongoing attention. We must continue demonstrating responsibility toward this issue.

Ratification of the Kyoto Protocol is likely to constrain the building of new capacity in many parts of the world. It is also likely to increase costs for many of us.

Governments and communities will demand greater environmental accountability from us.

A Greenhouse Gas Tool for use in accounting for gas emissions is a much needed development.

Also, I urge you all to become involved in the CO2 Breakthrough Programme. It is an opportunity to further improve the global perception of our industry as responsible and pro-active in our efforts to reduce greenhouse gas emissions.

This is a chance to present our industry as forward thinking. Seize it.

### **(iii) Conclusion**

**To summarise,**

There are six specific areas we need to work on in order to improve our steel industry. Six pillars that will form the basis of a wiser, stronger steel industry.

*(slide 10)*

We must restructure.

We must focus on reducing volatility.

We must address the raw materials situation.

We must continue our stand against steel subsidies and excessive government interference in our industry.

We must spend on innovation to produce new wealth, and on our owners.

We must ensure the safety of every employee and contractor and re-affirm our licence to operate within our host communities.

Meet these six challenges, build these six pillars, and we – the leadership of the world's steel industry in 2004 - will have made the fundamental changes our industry needs.

Then, the steel industry will be more highly regarded.

Then, our companies will be even more desirable for long-term investment.

More desirable as employers.

And more desirable as neighbours, as members of a community.

And we will indeed, be a wiser, stronger industry.

As leaders of the world's steel companies, we can each make a difference.

*(slide 11)*

Together, we are the people who can make the steel industry better.

We must re-deploy our current profitability responsibly.

I would also like to express my gratitude for this opportunity to speak. It has been a privilege to lead the IISI during these past twelve months.

***Progress must be made.***

**Ladies and gentlemen, I thank you.**

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