European steel getting the deals it craved for years

BY THOMAS BIESHEUVEL

A filepic of Tata Steel plant in South Wales, the UK. It has entered into a tentative agreement with Thyssenkrupp AG to merge their European steel businesses, which will create a No 2 producer in Europe. Photo by Reuters

LONDON: After a decade of waiting, Europe is seeing its second major steel deal in months, which should be good news for a fractured industry suffering from too much supply.

Tata Steel Ltd and ThyssenKrupp AG's tentative agreement to merge their European steel businesses will create a clear No 2 producer in the region, behind ArcelorMittal, which in June agreed a deal to take over the continent's largest steel plant in Italy. The accords, which will see just two firms control about half of Europe's steel industry, raise hopes of greater pricing discipline and more consolidation.

Such deals may help resolve the industry's most enduring problem: There are too many mills making too much material. The oversupply — European firms are still churning out steel as China floods the world market with huge exports — stops plants from running at full capacity, raises costs and hurts profits. With more consolidation, larger companies can help cut excess supply and support prices that have started to recover since early last year.

See related story on Page 15

"We have always clearly stated that we believe in consolidation as the best solution for steel," ThyssenKrupp chief financial officer Guido Kerkhoff told Bloomberg TV yesterday. The combined company, to be called ThyssenKrupp Tata Steel, will have shipments of about 21 million tonnes of steel a year. After agreeing to take over the Ilva works in Italy, ArcelorMittal will have the capacity to produce about 60 million tonnes a year. Combined, the firms will account for roughly 50% of Europe's steel output. — *Bloomberg*