Steel Success Strategies, 19 June 2012
Mr Mittal’s Key Note Speech

Good morning everyone. It is a pleasure to be here with you once again in New York.

When I accepted Peter’s invitation to give this speech some 6 months ago, I could not have predicted that two days before the conference Greece would face another election that could lead to the country leaving the euro. Or that Euro zone finance ministers would agree to lend up to EUR100 billion to Spain to help the country shore up its struggling banks. Or that India, one of a number of key economies that appeared to be undergoing sustained, rapid development, would see its growth rate would fall to a comparatively poor 5.3%. Or that Brazil’s first quarter GDP growth would be slower than Japan’s. I could go on. Suffice to say, the severity of the situation was pretty well summed up on the cover of a recent edition of the Economist, which featured a sinking ship entitled “The World Economy.”
Not a very encouraging analogy. But then we are not looking at a pretty picture. Indeed the convergence of all these factors has led some economists, analysts and commentators to ponder whether certain economies in the developed world, if not the entire global economy, might be facing a period of prolonged Japan-like stagnation if action is not taken.

This, regrettably, was the reality of the situation as I sat down to contemplate what I might say to you all today. Fast forward ten days and some relief has been offered by the results of the Greek election, with the centre-right New Democracy Party now having the opportunity to form a coalition. But we are not out of the uncertainty yet. This is only one small step towards overcoming a very significant problem and we have seen plenty of false progress before. The G20 has a lot to discuss this week in Mexico.

When we met together last year, overall the sentiment was more positive and I was more sanguine than I am today. Even though there were plenty of challenges, key
indicators were continuing to move in the right direction. And most pertinently the European debt crisis had not yet become the serious threat that it is today.

The situation in Europe, the world's biggest economic area, is preying on everyone's mind. Although at the end of last year it seemed as though the disaster scenario of a euro zone collapse had been averted, the enormous economic and political complexities of finding the right solution has resulted in numerous threats to the fragile fiscal compact. Greece continues to be the biggest worry, but there are also very real fears concerning Spain and Italy. These countries might be a long way from New York, but the situation in Europe has relevance to everyone here today. Ben Bernanke recently acknowledged that the situation in Europe poses significant risks to the US financial system and economy and that the situation must be monitored closely, with the Federal Reserve prepared to take action if needed. Canada's Prime Minister Stephen Harper has compared the situation to "running out of runway," adding that there can always be a focus on short-term solutions
without a realistic plan to stabilise the situation as a matter of urgency. The Bank of England, together with the British government, has said it will provide billions of pounds of cheap credit to banks to lend to companies. Even China has responded, with its unexpected recent interest rate cut - the first since 2008.

In essence, this is the most serious situation the global economy has faced since the onset of the financial crisis nearly 4 years ago. The fears and uncertainty surrounding the economic fragility is reflected in the behaviour of voters around the world, not only in Greece, Spain and Italy but also in France, the UK and even developing countries such as India. When it came to the crunch, the Greek voters did narrowly essentially vote in favour of the bail-out. But it was close and everyone is now watching closely to see if a coalition can be formed. Even if it can, there is every likelihood that a new government will seek to re-negotiate some easing of the current austerity measures.
It is clear that some very critical economic and political decisions will need to be taken in the coming days, weeks and months: Decisions that will have very serious consequences for the global economy for the foreseeable future.

These are not easy decisions by any means. But I believe there are lessons to be learnt from the response adopted by the US. Although the US has recently seen three consecutive months of weak jobs figures, indicators remain broadly supportive. Auto sales, although they have weakened month-on-month, are up 17.5% year-on-year. The PMI remains above 50 at 53.5. And while Goldman Sachs expects the knock-on effects of the European crisis to reduce US GDP by between 0.2 ï 0.4% this year, growth in 2012 is likely to be over 2%, which is comparatively much healthier than the EU.

Admittedly there are some key structural issues that have assisted the US in its ability to take decisions, not least its fiscal federalism. But in addition the government has pro-actively taken a number of important policy
decisions that have been supportive of growth. These include the substantial stimulus package passed very early in the Obama Administration; the TARP program to re-capitalise the banks; the Federal Reserve’s two rounds of quantitative easing; and the difficult but vital restructuring of the automotive industry. One measure I felt was particularly valuable was “Buy American”: the provision in the economic stimulus package that ensured that only US produced iron and steel would be used for federally procured or funded public works and buildings.

Europe by contrast has preferred to focus on austerity measures. Whilst such policy decisions have clearly been adopted with every best intention, regrettably they are not working. A clear plan must now be set out to prevent the collapse of the euro zone. I don’t pretend to be either an economist or a politician, but the likelihood is that this will need to include some level of fiscal and banking integration. I also sit firmly in the growth camp in the battle between growth and austerity. That is not to say that austerity is not part of the solution. But it needs to be done in a way that is not preventative of growth.
Indeed in those economies that are in a severe recession it is counterproductive to cut government spending too quickly.

Measures need to be implemented that focus on improving the real economy. I believe that Europe should stimulate growth by making funds available to invest in infrastructure and at the same time step up efforts to reduce bureaucracy, implement structural reform of the service sector, recognise the importance of innovation and liberalise the labour market. The latter really needs to be addressed. Europe is just not going to be competitive if its yearly working hours are only about 1600 compared with over 2000 in the US. And improving competitiveness must be the aim.

In the short-term, interest rates should be cut again. Perhaps the ECB like the Fed should be mandated to support economic growth. Plus it should be allowed to stand behind sovereign debt to stabilise the situation before some form of pan-European debt mutualisation with responsibility can be achieved.
What does all of this mean for the steel industry? Steel demand, as we know only too well, is critical to a wide range of economic activities and is thus closely pegged to GDP performance. So when the economy is facing challenges, it is only logical that steel will be impacted, as we have seen in the last few years.

Since the onset of the crisis four years ago many steel companies, ArcelorMittal included, have taken actions to strengthen their business in light of the economic challenges. From ArcelorMittal’s perspective, I am convinced that we have made very good progress in implementing a strategy aimed at adapting to the new environment.

We have implemented a lot of measures. But before I talk about them in more detail, I want to stress that our priority through all of these activities at all times of the economic cycle remains health and safety. When ArcelorMittal was created back in 2006, we stated that
health and safety was and always would be the number one priority of our Group. We said that we would not be satisfied with our health and safety performance until we had reached a situation of zero fatalities and zero accidents in the work place. We call this our Journey to Zero. A big challenge I am sure you will agree. But this can be the only result that we can accept. We put considerable and continuous effort and communication into supporting this aim. Recently we held our annual health and safety day which is celebrated at every single site and office around the globe. We begin every management meeting discussing the topic. We have identified the sites that need the most improvement and have developed targeted programs to support their progress. Six years after we set ourselves this goal, I am very pleased that we are making good progress even though we still have some way to go before we reach our target of zero incidents in the workplace. We reported a lost time injury frequency rate of 1.1x in the first quarter our best quarter to date. This shows that relentless attention in this area can and will bear results. We are now focussed on further improvement and driving this
number down further in our Journey to Zero. I am proud of the work the company has done in this regard.

In terms of strengthening the business, we, like many others, have re-focused on cost, recognising that in order to maintain our position in the steel industry it is critical that we continue to be competitive on costs. We have also significantly strengthened our balance sheet since 2008, reducing net debt by over 25% to date.

We have also sought to optimise production from our most competitive assets. At the start of the crisis, ArcelorMittal realised very quickly that we would need to adapt to a difficult situation. As it became clearer that the downturn was going to be more pronounced and longer than initially expected, we altered our strategy to focus production on our most competitive sites, as has already been publicly reported. This has resulted in the temporarily idling or in the case of Liege in Belgium proposing the permanent closure of certain assets.
So we are working to make the business stronger and more efficient. But growth and adapting to customer demands are also on the agenda in the appropriate areas.

Specifically we are focussed on being competitive in terms of product and service. We are the leading supplier to the global automotive industry, with a strong market share in the core markets and are absolutely dedicated to remain at the forefront of product innovation. This means continuing to invest in research and development. Our automotive customers are being challenged to produce lighter but stronger cars and it is our mission to help them achieve that. We have built our own body in white to showcase how the car body can be made 20% lighter through our řS-in-motionô products. This has received a very positive response from our automotive partners and has helped position steel as the material of choice for the 21st century.

And finally we have focussed very seriously on growing our mining operation. If you compare our business today versus four years ago, a key difference is the size
and strength of our mining business. We are making good progress on our strategy to increase iron ore production to 100 million tonnes by 2015. We believe this is a key competitive advantage in the current environment of high raw material prices, which despite recent falls look set to remain at a comparatively higher level compared with past trends, largely as a result of the substantial demand from China.

This mixture of what I guess could be described as austerity and growth has made ArcelorMittal a stronger, more focused and more competitive business than before the crisis.

Despite all this progress however, it is clear that the economic situation today remains very concerning. And this continues to impact us.

It is an undisputable fact that the sustained collapse in European demand has created a severe imbalance with potential supply. Prior to the crisis, European steel demand was almost 200 million tonnes, according to the
World Steel Association Short Range Outlook. Today it is around 150 million tonnes. This imbalance clearly raises the question of long-term sustainability.

I do not believe that there will be a return to pre-crisis levels of demand anytime soon. Of course we would rather be in a situation when demand was robust. And I understand that the situation is difficult for all our stakeholders. But unfortunately we do face a tough reality.

Even in the US, whose economy is performing better, there are challenges. Look no further than ThyssenKrupp’s green field project in Alabama, fed by an even greater green field investment in Brazil. The implied business model – low cost Brazilian slabs supplying high-end finishing in the States – has been wrecked by soaring costs in Brazil, unfavourable currency shifts and rising input prices.

At the other end of the spectrum we have RG Steel which filed for Chapter 11 protection on 31st May, listing
debts of more than US$1 billion. The company has been unable to competitively operate the three mills it acquired last year from Severstal for US$1.2 billion and is actively seeking a buyer for the business.

What this clearly shows is that even in economies that are performing better such as the US, there are very significant challenges of competitiveness that must be addressed if countries want to keep a long-term manufacturing base. The good news is that if we can do that then in the long-term I believe the outlook is more positive.

Last year I spoke about how we had entered a new paradigm, which was marked by a significant shift in steelmaking towards the developing, high growth markets. And indeed it was the demand growth in these markets that saw 2011 achieve another record in global steel demand of 1.4 billion tons, despite the ongoing challenges in many economies. And I expect further demand growth both this year and next.
On balance I still believe in this positive long-term trend. For example when you look at the reality of key development parameters for China versus the United States, the gap is still quite considerable. So whilst there is an understandable concern about a cooling down of the Chinese economy and the impact that will have on the rest of the world economy, I still expect Chinese growth to continue at good levels for the coming years. From everything that we have seen to date I believe that the Chinese government is extremely disciplined at managing its economy and is committed to ensuring a soft landing. In the wake of the impact of weakening export markets, the Chinese government has recently been taking measures to stimulate their economy. These include reducing interest rates for lending, another cut in the Bank Reserve Requirement Rate, increased bank lending and acceleration in the social housing program. Careful consideration of its steel industry will be an important part of this, and again I am reassured by what I have seen. In line with the objectives of their 12th Five year plan, consolidation and modernisation through elimination of outdated capacity should continue, with
increasing focus on innovation and environmentally cleaner production – although this will also make the Chinese increasingly formidable competitors on the global stage.

India also enjoys considerable long-term opportunities and requires enormous infrastructure investment. But its economy is experiencing some quite serious challenges. The Indian government must concentrate on smoothing the path for foreign investors in the country. There are understandable challenges in India relating to land acquisition and raw materials, but nevertheless the government must find a way to overcome these roadblocks more swiftly. Industrialisation is an important part of every major economy’s development and by risking progress in this way, India is potentially condemning hundreds of millions to remain in poverty longer than previously anticipated. I hope that they are able to re-focus and return to the higher level of growth rates.
Despite the challenges in the emerging markets, it is clear that industrialisation of these economies has a long way to go and that steel will always be a vital part of industrialisation. This is what causes me to be more optimistic for the long term.

In conclusion, I would like to remind you all that we are living through tough times. There is absolutely nothing to be gained by denying this fact. I believe that things can and will get better; But only if policy makers, business and communities work together to find sustainable solutions.

Those of you who were here last year might remember I ended my speech with a picture of the ArcelorMittal Orbit. The Orbit is a 115 metre sculpture that has been built on the London 2012 Olympic Park. It is now complete and standing proudly next to the main stadium. The views from the top are extensive and I am sure that this spectacular sculpture will be a valuable addition to London. Moreover it is a great symbol for steel and our products’ flexibility, beauty, strength and unique properties. The fact that it has close to 60% recycled
content is testament to our commitment to sustainability. It has attracted many different comments but the fact remains that this unique structure could only be made with steel, like the many different objects that we use and require in our life every day.

Thank you very much.