

## INVESTMENTS IN IRON AND STEEL INDUSTRY SECTION IN POLAND UNDER GLOBALIZATION CONDITIONS

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*ABSTRACT: Globalization processes set new tasks in front of modern companies and created new opportunities for their development. The functioning of metallurgy enterprises under globalization conditions requires systematic changes that enable an increase of companies competitiveness on the market. Significant changes in foundries activities cause investment ventures. Particular intensification of development activities could be noticed during privatization of state enterprises and consolidation of iron and steel section in Poland. Those processes were additionally intensified by business cycle and demand on steel products.*

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Globalization – as it is highlighted by many authors – has multidimensional character. Anna Zorska – one of the best specialists in issue of globalization of polish economy claims that “*globalization is a higher, more advanced and complex stage of business activity internationalization process.*” [1, p.14] In discussed issue context, it is possible to recognize business activity globalization as “*long-term world process of integration of more and more national economies beyond their borders, thanks to expansion of their mutual connections and intensification, that result in worldwide economy system which is highly correlated...*” [2, p.42]

Changes that are implemented nowadays in the world concern both every life domain and every branch that is functioning on the market. Their common feature is an acceptance of the role of clients’ paradigm in companies’ strategy. “*Modern companies philosophy is to put the client in a centre of their activities so he could be provided with the best quality offer.*” [3, p.59]

Globalization processes set before modern companies new tasks and created new opportunities for their development. The operations of metallurgy enterprises under globalization conditions, require systematic changes that enable an increase of companies competitiveness on market. This increase that was mentioned above aimed at improving metallurgy enterprises position and constitute an answer to environment changeability. This environment that results from globalization processes is characterized by plenty of various features, among which production and services structure, innovative technology, specific relation character between suppliers and their customers can be numbered. [4, p.132]

Each one of mentioned above elements require constant analysis that result in complex decisions in company strategy area. Taking those elements under consideration, with reference to metallurgy enterprises, it can be indicated that in globalization era mergers and takeovers of companies are the factors of the most significance.

Because of business restructuring and metallurgy industry privatization that took place in seventies and eighties a few metallurgy groups were created, which dominated European metallurgy industry and controlled situation on a market of steel producers. The purpose of those processes was to gain the highest possible share in the market and influence the shape of an industry, create possibilities of customers complementary procurement, adjusting production capacity to demand for

metallurgy products and to achieve synergy effects associated mainly with costs reduction. [5, p.328]

Motives of mergers and takeovers evolve together with economy, technology, law and social changes. [6, p.461] To initiate consolidation processes in steel and iron industry appeal a lot of motives. It is certain that those very significant are: universal character of steel products, on which there is demand all over the world, fast development of metallurgy technology through global science and fast transfer of processes and know – how that are implemented in metallurgy companies, or a need of large capital expenditure for new, modernization and investment projects.

Thanks to producers consolidation the customers can make not only use of local markets but also of global as well. Another strong argument for merges or strategic alliances is an increase of competition pressure, caused by to large production capacity. The competition is far more intense when it comes to industry diversification. Monopoly and oligopoly structures limit competition and create the opportunity for larger profits. [7, p. 375] But the key motive of section consolidation pointed by many of experts was progressive globalization of steel products receivers, mainly car industry, packaging and household utensils industry. In the case of lower tempo of iron industry consolidation in comparison to steel receivers' branches, this branch will be in unfavorable position.

Those factors mentioned above compel to create strong economic entities, that will be able to successfully compete on difficult markets (both in the national and global mscale). The functioning of metallurgy industries is becoming possible nowadays within the framework of economic entities, that have a lot of readily available cash. [8, p.7]

The main condition that decides about metallurgy production profitability is participation in adequately big market segment. This argument speaks for market globalization, and competition on global market and force consolidation of producers.

Competition between single producers and regional or global producers, or organizations, has no chance for success in long – time period. Individual producers can find favorable conditions to act only in segment of products that have some unique features and are consumed in small quantities, or act in the capacity of coworkers that supply large global metallurgy concerns with semi-products or those that are processed in a lower stage.

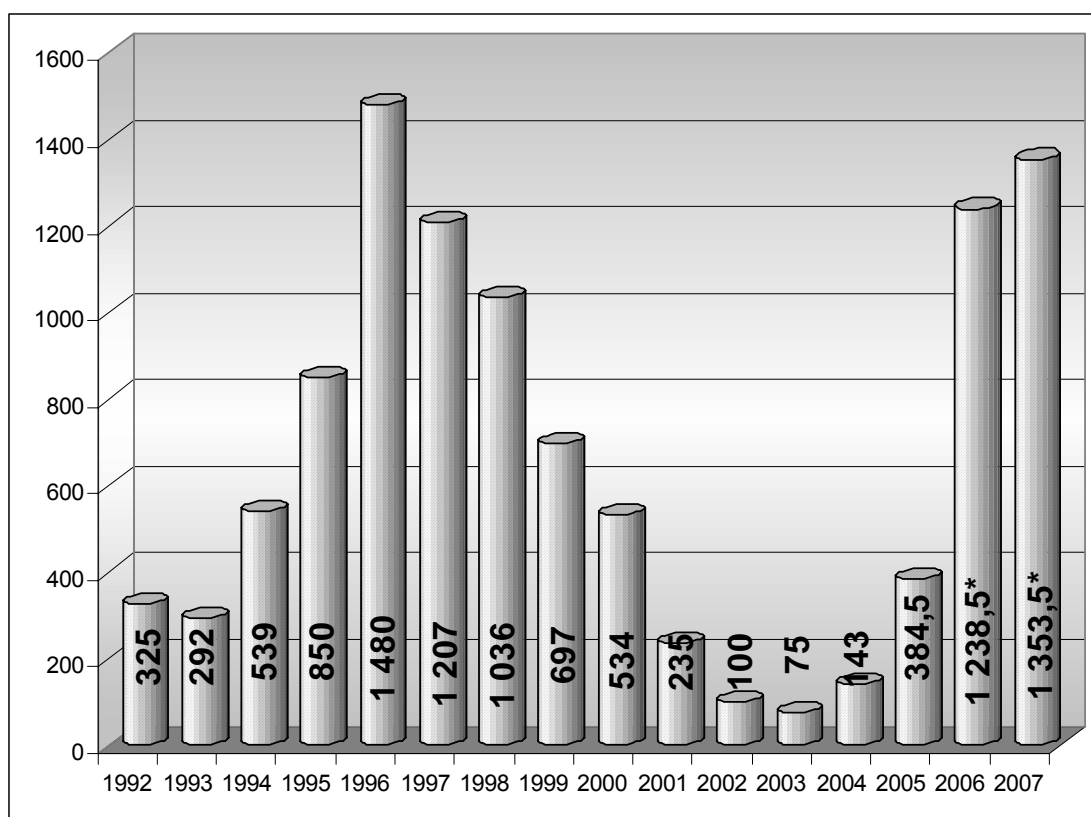
In globalization era, for the future of metallurgy industry very important is: to reduce production costs, to reinforce scientific studies and development research, intensify dialogue with companies that process steel and their final consumers, to open new areas where steel can be used and to raise self-consciousness of metallurgy companies workers.

As one of the main factors of merges and takeovers intensification in steel and iron industry section, investment needs were pointed out. Investment, as an essential development and company economic growth process forms changes both in material and immaterial area. The investment strategy determines a competent use of capital expenditures, and also creation of new structure and company economic quality. B. Woźniak – Sobczak thinks, that factors, which determinate the company value because their basic strategy is activity in investments area. [9, p.60]

Investment strategy goals are resultant of global companies' strategies goals from iron and steel industry. Acceptance of market value growth as a company strategic goal causes that investment decision criterion is a derivative of this strategic goal and it is defined by income from invested capital maximization, and acceptance of certain risk level. [10, p.74]

### **Investments in iron and steel industry in Poland**

From the beginning of political system transformation in Poland in iron and steel industry section a lot of changes have taken place. Foundries initiated ventures that was focused on modernization and development to adjust products, that was offered by them, to world standards. Value of capital expenditures bear by polish foundries during business restructuring is shown on picture 1.



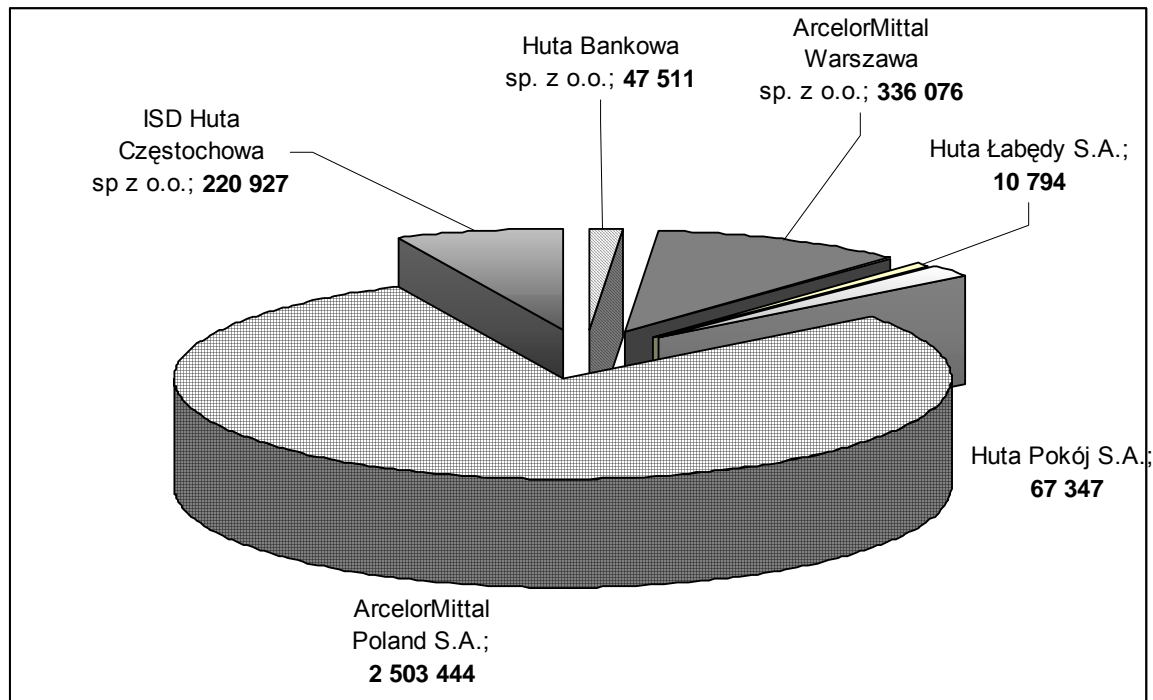
\* capital expenditures bear by foundries which were public help beneficiaries and ISD Huta Częstochowa

***Fif. no. 1 - Capital expenditures in metallurgy industry in Poland in 1992 – 2007***

***(in million PLN)***

Source: Self elaboration based on: J. Furman, M. Żelichowska, R. Sosnowski, *Czynniki postępu technicznego jako determinanta konkurencyjności polskiego hutnictwa żelaza i stali*, Hutnik – Wiadomości Hutnicze, 2005, number 6, page 334 and survey data collected from foundries that took part in restructuring program according to Program dated on 2003.

Since 1992 systematical growth of expenditures is being noted and the highest value was in 1996. It was a time when companies eliminate technological distance between them and highly developed countries. After 1996 investment expenditures went down and reached the lowest level in 2003. Since 2004 growth were noticed in foundries development activity. In 2007 investment expenditures amounted to 1 353,5 million PLN.



**Fig. no. 2. - Investment expenditures of metallurgy companies under public help in 2003 - 2007 (in thousand PLN)**

Source: Self elaboration on the basis of companies data

Definitely, the largest investment ventures were realized by ArcelorMittal Poland (picture 2). After merger in 2007 this consortium is the world biggest steel producer. Its capacity power amounts to almost 120 million tons of steel a year. From the moment, when Mittal Steel have taken over Polskie Huty Stali, some significant investment ventures were initiated. In concern division in Sosnowiec rolling mill were modernize, and in Świętochłowice brand new coating metal plate line was opened. In 2005 they started to build new constant steel casting line (COS number 3 in Dąbrowa Górnicza) and in the of December there were first melt. In second quarter of 2007 the COS line worked using full production capacity. The target production capacity value is amount to 3 million tons. The biggest Mittal Steel Poland investment – a hot metal plate rolling mill in company division in Kraków amount to 381 million dollars. It's until now the most modern hot metal plate rolling mill in Europe and at the same time the biggest investment in European metallurgy industry since almost twenty years. [11] Because of modern hot metal plate rolling mill in ArcelorMittal Poland division in Kraków production of high quality metal plates will be provided. Also cold rolling mill is going to be build in Kraków. Contract for this investment was signed in 2007. Cost of this investment will amount to 25 million Euro and accordingly to plan it should be finish in the first quarter of 2009. Thanks to this investment ArcelorMittal Poland will be able to provide the high quality cold metal plates for dynamically developing markets, for example: car industry and household goods industry. Only then it will be justified to talk about full offer of ArcelorMittal Poland division in Kraków for different economy branches.

Concern takes under consideration a construction of forth constant steel casting line and construction of second fire zinc-plating line. Furthermore in the ArcelorMittal Poland area of interest there is an another company - Huta Łabędy - which will be for the concern, it already has majority of polish foundries, another very important investment.

ArcelorMittal invests in different parts of the world. [12] This company is present on every, from developing countries to already developed ones, key steel markets. Until 2012 the concern is planning to spend over 35 billion dollars on investments and modernization of company factors around the world, and during the nearest five years company wants to invest over 1,3 billion dollars

every year. ArcelorMittal is also planning to invest in Ukraine and invest in mines and foundries 10 billion dollars. Moreover the company will aspire to invest in dynamically growing China and India markets. ArcelorMittal strategic investment is to sign joint venture agreement with companies from Bin Jarallah Group about building a seamless pipes rolling mill in Saudi Arabia. Realization of this project will create an opportunity for ArcelorMittal to enter into dynamically growing Near East markets. Localization of this rolling mill will enable concern to access to international seaways through Persian Gulf and to energy sources. ArcelorMittal started investments indicate that concern monitors the market and implements ventures to leave competition behind.

In other foundries, particularly in those, which were overtaken by foreign investors, investment activity was intensified.

In ISD Huta Częstochowa only in 2006 investment expenditures amount to 110 million PLN. It's over twice as more than Zakład Przemysłowy Donbasu declare in privatization agreement. In 2007 Donbas is going to spend over 370 million PLN (this amount may be higher). According to company owners declarations from 2008 foundry will produce 1,2 million tons of thick metal plates, 100 thousand tons of seamless pipes and minimum 100 thousand tons of steel constructions. [13] After implementing the whole investment cycle, which will be worth about 100 million Euro and is planned to be finished until 2009, production level will stabilize on even higher level that is right now.

In the context of Huta Częstochowa overtaken by Ukrainian investor it is necessary to mention, that it is because of this transaction and others similar to it, it become easier to enter into European Union markets by companies from behind the eastern border. Because since 18/05/2008 Ukraine is a member of World Trade Organization (WTO) import limits to European Union were raised. Ukraine produces in one year scale about 40 million tons of steel, from which on internal market directs about 10 million tons. Part of those production surpluses will be exported to European Union markets.

Russian concern Severstal is present on Polish market for four years now – as a supplier of metallurgy products. Recently Severstal, through Severstallat company, is an owner of Technologie Buczek wealth where company is planning to invest about 20 million Euro during the nearest three years. Polish market is attractive for Russian investors taking into consideration 15% increase in demand on metallurgy products.

In Poland among others operate Ukraińska Górniczo-Metalurgiczna Kompania (UGMK) concern as GCB Centrostal Bydgoszcz SA shareholder or Białoruskie Metalurgiczne Zakłady (BMZ) from Żłobin with agency in Katowice. Those companies have been operated in Poland for a few years and now enter into new markets where they create a competition for local producers. [14]

Another metallurgy company overtaken by foreign investor – Celsa – is Huta Ostrowiec. In this foundry in recent years over 300 million Euro was invested. Significant funds were assign for intensification of metallurgy process: curve furnaces were modernized, founding speed on constant steel founding line (COS) was increase. In result efficiency and productivity was improved. [15] Zakład Wyrobów Walcowanych and Zakład Wyrobów Kutych are still being modernize. New rolling mil is being build, soon another constant steel founding line will be operational. Departments are equipped with modern machinery and devices. As it is highlighted by members of Celsa board of directors, Polish market is a priority for this concern, that is why they are planning another investments.

Also Commercial Metals Company (CMC), the owner of Zawiercie foundry, bet on investments. Concern significantly increases production possibilities due to investments. Efficiency of steel mill improved. As a result of transformers exchange for ones with greater power time of steel melting was shorten and quality of scrap metal structure was improve by installing a fray machine. Buying new mill rolling press line was also a significant venture. However it is not the end of foundry capacity building, because concern is planning to build a reinforcing bar cutting and bending pilot plant. The cost of this investment amount to about 5 to 7 million USD. Because of

mentioned above investments CMC wants to better fit company offer to demand on their products and to extend a range of goods which are produced by them that are intended mainly for building industry. [15]

### Summary

Investment policy pursued in steel and iron industry in years 1992 – 2004 was incoherent. Investment expenses (close to 7,5 billion PLN) incurred in this period of time by dispersed companies, did not lead to intended quality changes in this section. Investments implementation during discussed period of time was concentrated mainly on metallurgy – steel processes and producing semi-products. Those actions were caused by foundries limited financial possibilities and lack of creditworthiness to finance complementary technological restructuring processes. No new investments were undertaken and non were completed when it comes to deep steel processing industry and production adjustment to direct market needs.

Not till then privatization and consolidation processes intensified metallurgy companies in Poland investment activity. Since 2004 investments have been implemented that headed for quality and competitiveness of foundries products increase. It is necessary to notice the fact that every foreign investor is doing its duties (when it comes to planned development actions declared in privatization agreements or taken into account during metallurgy section program dated on 2003).

Business cycle in metallurgy industry, accordingly to branch representatives will be on the same level for a few years and it is a kind of situation that is favorable for investments. Until now investment plans of investors present on metallurgy market must have been in conformity with European Union requirements. European Union restrictions concerning not to increase production capacity and those that resulted from privatization agreements with government have been obligatory since the end of 2006. Nowadays, investors can implement investment strategies without taking into consideration European Union conditions. Moreover foundries development activity is favorable by consolidation and globalization processes through limitation of redundant expenditures that came from double investments. That is why metallurgy industry in Poland is closer to achieve global competitiveness.

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