

Cooperation between the SO SR and MNE Globalization in the steel industry

Alexander Zemancik

Director Commercial Controlling, Marketing and Strategy Unit

Veronika Torokova

*Business Statistics Directorate, Director of Methodology
and Synthesis of Business Statistics Department*

There are many definitions of globalization but generally we can say that globalization is the process of interaction and integration among people, companies, and governments worldwide. It has grown and continues to grow due to advances in transportation and communication technologies. The Globalization is seen in almost all areas of our life as economical, cultural, political and environmental globalization.

1. Introduction

The Globalization is seen in several forms such as

- a) economical globalization - the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, services, technology, and capital;
- b) cultural globalization which refers to the transmission of ideas, meanings, and values around the world in such a way as to extend and intensify social relations by the Internet, popular culture media, and international travel;
- c) political globalization which refers to the growth of the worldwide political system, both in size and complexity and finally
- d) environmental globalization as the internationally coordinated practices and regulations, often in the form of international treaties, regarding environmental protection.

The globalization has its big advantages, but it also brings some difficulties. As the advantage, it is possible to consider the incentive for countries to specialize and benefit from the application of the principle of comparative advantage; access to larger markets which leads to a reduction in average

production costs; worldwide access to sources of cheaper raw materials (global sourcing). Globalization also brings the advantage of avoidance of regulation by locating production in countries with less strict regulatory regimes and increased flows of inward investment between countries, which is creating benefits such as sharing of knowledge and technology. Last but not least, in the long term, increased trade is likely to lead to the creation of more employment in all countries that are involved.

Not to forget also some negative impacts – such as the over-standardization of products through global branding; large multinational companies can also suffer from diseconomies of scale, such as difficulties associated with coordinating the activities of subsidiaries based in several countries; the increased power and influence of multinationals and following potential loss of jobs in domestic markets caused by increased, and in some cases, unfair, free trade and structural unemployment. In some areas it is bringing increased pace of deindustrialisation, which is the slow erosion of an economy's manufacturing base. Country-wise – it could cause the increased risk associated with the interdependence of economies – and – what is strongly discussed currently - increased pollution contributing to CO₂ emissions and global warming.

2. Multinational Enterprises in the Globalized World

Multinational corporations are currently a part of our daily life in the present world but – not many years ago – they did not exist. We know many brands – many individual companies which had their own development and history representing many successful stories connected to the life of generations of the people. The food companies are probably the best-known and are an excellent example of globalization – currently only 10 companies control almost every large food and beverage brand in the world. Each of the following companies — Nestlé, PepsiCo, Coca-Cola, Unilever, Danone, General Mills, Kellogg's, Mars, Associated British Foods, and Mondelez —employ thousands of people and make billions of dollars in revenue every year.

The companies/sectors using steel are not the exemption –a good example is the VW story. Volkswagen was founded in 1937, to manufacture the car which would later become known as the Beetle.

The company's production grew rapidly in the 1950s and 1960s, and in 1965 it acquired Auto Union, which subsequently produced the first post-war Audi models.

Volkswagen launched a new generation of front-wheel drive vehicles in the 1970s, including the Passat, Polo and Golf; the latter became its bestseller.

Volkswagen acquired a controlling stake in SEAT in 1986, making it the first non-German marque of the company, and acquired control of Škoda in 1994, of Bentley, Lamborghini and Bugatti in 1998, Scania in 2008 and of Ducati, MAN and Porsche in 2012. In 2018, Volkswagen Trucks and Buses which comprise the MAN, Scania, and RIO truck brands have been renamed to TRATON AG. The company has operations in approximately 150 countries and operates 100 production facilities across 27 countries.

2.1 Multinational Enterprises in the Steel Sector

The steel industry is one of the most important industries in both developed and developing countries. Those countries that have tried to make economic development schemes concentrated their efforts on fostering their steel industries. Leading countries such as the USA and Western European countries have developed their steel industries in that way. Japan has also devoted its efforts on expanding its steel production capacity during the economic development period. Emerging countries such as Brazil have set their steel industries No.1 position in economic development plans.

The steel industry has many characteristics. It is a capital-intensive industry that requires huge capital investment. It requires huge resources and needs various kinds of raw materials and energies as inputs. Also, this industry has a big influence on other industries. Accordingly, the countries which could produce better steel products more cheaply, are more competitive in the industries that use steel products for their raw materials. Besides, steel industry has such a characteristic that it cannot control the imbalance between supply and demand easily. In the economic recession, steel producers cannot easily reduce their supplies, even though steel demands decrease, so the steel product price can fall sharply. On the contrary, in the economic boom, steel prices rise quickly, because steel producers cannot expand their capacity in a short period. The entry barrier to this industry is very high due to need of high initial investment. Besides, in the steel industry, the choice of production base is very important, because the flow of material is an important factor in the securing of competitiveness.

Thirty years ago, Europe was the world's largest steel producer. The steel industry used to be nationally regulated and nationalised but since the 1970s, it has slowly become privatised. Since the mid-1990s a major process of concentration, privatisation and transnationalisation has turned it into a globalised sector.

Currently the largest steel producers in the EU are multinational companies ArcelorMittal and Tata Steel, followed by the German ThyssenKrupp and the Italian Riva Group.

As related to globalization, there are several factors encouraging globalization in the steel industry.

The most important are: improvement of the quality of products, decrease of the cost of production and increase of productivity in order to compete in the world market and gain profits.

Global capital is also more interchangeable and its flowing across borders is more free what is leading to continuous shifts in manufacturing competitiveness, increasing of global trade and to multi-speed regional growth.

The present biggest steel producers have been created also as a result of globalization process in the steel world. ArcelorMittal is the successor to Mittal Steel, a business originally set up in 1976 by Mr Lakshmi N Mittal. ArcelorMittal was created through the merger of Arcelor and Mittal Steel in 2006.

Mittal Steel's rapid growth since 1989 has been the result of combining a successful consolidation strategy with a number of significant acquisitions. Since setting up operations in Trinidad and Tobago in 1989, some of its major acquisitions are Siderurgica del Balsas (Mexico) in 1992, Sidbec (Canada) in 1994, Karmet (Kazakhstan) and Hamburger Stahlwerke (Germany) in 1995, Thyssen Duisburg (Germany) in 1997, Inland Steel (US) in 1998, Unimetal (France) in 1999, Sidex (Romania) and Annaba (Algeria) in 2001, Nova Hut (Czech Republic) in 2003, BH Steel (Bosnia), Balkan Steel (Macedonia), PHS (Poland) and Iscor (South Africa) in 2004, ISG (US), Kryvorizhstal (Ukraine), as well as a significant interest in Hunan Valin Steel (China) in 2005, and three Stelco Inc. subsidiaries (Canada) in 2006.

Arcelor was created in February 2002 through the merger of Arbed (Luxembourg) founded in 1911, Aceralia (Spain) and Usinor (France). Arcelor also had major steel production facilities in Belgium, Germany, Italy, Brazil and Argentina.

Arcelor acquired a controlling interest in Companhia Siderurgica Tubarao (now a part of ArcelorMittal Brasil) in 2004, Huta Warszawa (Poland) in 2005, a controlling interest in Sonasid (Morocco), as well as Dofasco (Canada) in 2006.

At the time of the merger with Mittal Steel in 2006, Arcelor was the second-largest steel producer in the world.

ArcelorMittal is the world's largest steel producer, with an annual crude steel production of 92.5 million metric tonnes as of 2018.

Another big steel producer - Tata Steel Limited, formerly Tata Iron and Steel Company Limited (TISCO), is an Indian multinational steel-making company headquartered in Mumbai, India, and a subsidiary of the Tata Group.

It is one of the top steel producing companies globally with annual crude steel deliveries of 27.5 million tonnes (in 2017), and the second largest steel company in India (measured by domestic production) with an annual capacity of 13 million tonnes . Tata Steel operates in 26 countries with key operations in India, Netherlands and United Kingdom, and employs around 80,500 people.

Tata Steel Europe Ltd. (formerly Corus Group) is a steelmaking company headquartered in London, United Kingdom, with its main operations in the United Kingdom and the Netherlands.

Corus Group was formed through the merger of Hoogovens and in 1999. It was acquired by Tata of India in 2007, and renamed Tata Steel Europe in September 2010.

At formation Corus operated steelmaking plants in Port Talbot, Wales; Scunthorpe and Teesside, England; and IJmuiden, the Netherlands, with additional steelmaking facilities in Rotherham, England, as well as downstream steel production of both long and flat steel.

In general, while the biggest steel producer in 1999 was Posco with 26.5 million tons, followed by Japan's Nippon Steel and three European companies, twenty years later we see 100 million tons company followed by Asian steel producers. Steel world map has changed completely.

The globalization is an ongoing process bringing a lot of positives. However, from the external reporting point of view, it could make some complication for the users of the published data.

In the globalized world – for example at the EU level - there is a centralized management of several funds and for their using the specific country rules area applicable. In case if only a company providing specific production/services can get access to funds, the mother company can decide to make one of its divisions/internal plant as a separate entity.

The company which has been previously a division of company inside of a mother company, becomes the subject of reporting to the Statistical Office. It means, that the Statistical Office is observing a “new subject” or “some new activity“ in the reports, despite any changes in the real economy. The same can happen reversely.

The question is how to monitor such changes and how to consolidate them at the national and at the EU level. To solve this process by statistical offices, it is extremely important to guarantee consistency of the data and to avoid the problems to read and understand the reasons behind significant changes in data. The companies, obviously understand that this process will require part of additional work, but the benefit from high quality information from both, Eurostat and the Slovak Statistical Office, which we are using for analyses to develop companies plans for future business,

will fully compensate certain additional requirements resulting from the Statistical Office related to reporting rules of companies.

3. The Statistical Office of the Slovak Republic and the communication with MNEs

The cooperation between the US Steel Cooperation and the SO SR exists for 20 years. Intensive communication with the reporting units regarding their operations in the domestic or global markets is a prerequisite for the understanding of data collected and compiled in broader context, especially the economic context.

These activities represent a necessity for the recording of activities of the business corporations operating at national level, including those units that are part of the Multinational Enterprises (hereinafter MNEs).

Meetings of the SO SR with the representatives of selected reporting units have been organized regularly and intensively for decades. The subject of these meetings was always the discussion of new facts influencing the development of economic indicators characterizing their business activities. Another area that was discussed with the reporting units concerned the forthcoming legislative changes in the context of harmonization of measurement concepts, e.g. short-term statistics at the turn of the millennium under the common legal framework in the Council Regulation No 1165/98 prepared as an answer on the need for coordinated statistics on short-term business cycle of all business activities and domains for which statistics were not developed since the eighties of the twentieth century.

We are witnessing a changing world. A world, in which the economic environment is obviously changing, for example the physical and financial flows of goods are increasingly different. Companies are no longer operating territorially, they are able to find faster and more easily not only new markets for their products but also production and personnel inputs.

With the changing business models, new topics arise in the discussions with the reporting units. These topics are challenges for the statisticians. Challenges in the perspective of their great diversity, unique business models at the level of national economies or Europe.

The business corporation is no longer a static element but is a dynamically changing living organism, constantly adapting mainly to available inputs as well as to the demand and competition.

It is clear that the economies of individual countries, as such, are competing in certain areas and are pursuing activities to make the domestic business environment more attractive in a global world.

Eurostat's natural response to the changing environment is to open up the topics on the need of creating Large Cases Units (hereinafter LCUs) or virtual LCUs consisting of statistical experts compiling business statistics and macroeconomic statistics using the EGR data of high quality. Experiences from meetings with the MNEs affirm the need to implement these Eurostat recommendations. Considering the complexity of the topics consulted, especially with the MNEs, it is necessary to complement the LCU teams with experts in specific areas of taxation and accounting procedures.

Recent working meetings of the virtual LCUs of the SO SR and the MNEs have shown that they have a lot of information, although complete information is not available at national level. The complexity of information can be achieved by combining statistical information and information from the administrative sources not only at national level, but also by addressing enquiries to the MNEs in other countries. In this context, Eurostat has initiated a GNI exercise to understand and verify a reliability of recording the globalization effects in GNI data. The SO SR was identified as a partner country in 23 cases out of 25 multinational enterprises selected for the GNI pilot exercise. GNI MNE Pilot Report to be finalized by the end of 2019.

With the need to combine inputs from various sources, it is necessary to ensure their availability at the required time and a quality at a comparable level. In this field, it is essential to launch a debate aimed at mapping of the situation regarding the availability of data sources and data comparability for the sake of harmonization. One example is the monitoring of financial and commodity flows of individual product statistics based on the PRODCOM List and Combined Nomenclature in the framework of the International Trade in Goods and consequently the connection, either in annual periodicity in correlation with the business statistics indicators or in monthly periodicity with the Industrial Production Index indicator if its calculation is based on surveyed products by PRODCOM. Another example of harmonization approach is e.g. Eurostat's SBS domain activity focused on mapping implementation and measuring the impact of changes under the IRFS 16 operating leases.

The above-mentioned facts result in the need for discussions on data availability at the national level in relation to national accounting standards. We mention, for example, our positive experience in Slovakia where all the accounting entities have an obligation to publish financial statements (Financial statements including notes) online. Their usage limitations are quality, format and timeliness.

For the sake of their comparability, it would be beneficial to provide legislative support from the EU level in terms of harmonizing the content, structure and also the format of the financial statements.

A compulsory step-by-step consolidation of the MNEs for the territorial areas of individual member states, disclosed in the harmonized statements would be highly beneficial. The consolidated data added up at EU level compared to aggregated data for national economies would allow to measure impact of globalization.

Bear in mind the natural contradiction between user requirements for very detailed statistical information at national and EU level and the availability of information from financial statements. The initiatives to be fully developed by the NSIs are aimed at reducing the response burden by means of statistical surveys. Ensuring the correlation of the requested basic economic indicators in detailed structures is challenging in terms of securing the capacities of highly qualified professional experts and the consequent personnel costs. There is a need for starting a discussion on the priorities of outputs, especially in terms of timeliness, quality and structures.

4. Conclusion

Globalization has influenced the way that enterprises organize themselves and carry out activities. Those facts have a big impact on the statistical outcomes.

There are a lot of challenges for the statisticians in relation to measurement of national economies or European Union area in a globalized world.

Recent working meetings of the LCUs and the MNEs have shown that they have a lot of information, but the complexity of information can be achieved solely by combining statistical information and information from the administrative sources not only at national level, but also by addressing enquiries to the MNEs in other countries.