

THE RESTRUCTURING OF THE STEEL INDUSTRY IN SLOVENIA

RESTRUKTURIRANJE JEKLARSKE INDUSTRIJE V SLOVENIJI

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The restructuring of the steel production industry in Slovenia is presented. Data on the production of steel in Slovenia for the period from 1986 to 1998 are given. Two periods of restructuring, the first from 1993 to 1997 and a new one starting from 1998. Privatisation and ownership of Slovenian Steelworks. Business performance in the years 1996 to 1998. Production of steel, productivity, and export orientation for 1998 are presented in this paper.

Key words: steel production, Slovenia, privatisation, restructuring, export, productivity

Predstavljeno je restrukturiranje proizvodnje jekla v Sloveniji. Dani so podatki o proizvodnji jekla v Sloveniji v obdobju od 1986 - 1998. Dve obdobji restrukturiranja, prvo v letih 1993 - 1997 in novo z začetkom v letu 1998. Privatizacija in lastništvo slovenskih železarn. Poslovni dosežki v letih 1996 - 1998. Proizvodnja jekla, produktivnost in izvozna orientacija v letu 1998 so predstavljene v članku.

Ključne besede: proizvodnja jekla, Slovenija, privatizacija, restrukturiranje, izvoz, produktivnost

Slovenian steel producers experienced a great reduction in business operations in 1991 when the former Yugoslavia disintegrated. The enterprises faced the need to find new markets as a condition of survival. The world steel market is very competitive and is dominated by steel corporations from Western and Eastern Europe as well as from the Far East. The cyclical changes of this market also affected the business operations of the Slovene steel enterprises. Since 1986 the volume of business operations of the Slovene steel companies has been decreasing. It strongly declined - by more than half in the years 1991 and 1992, when the Slovene steel producers experienced the greatest crisis. This is also evident from the volume of steel production which had been about 700.000 a year till the year 1990 and then dropped to only 300.000 in 1991 (**Figure 1**).

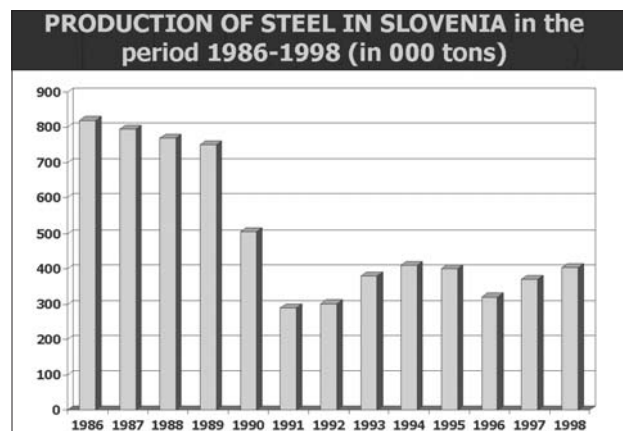


Figure 1

The steel industry in Slovenia is grouped into the Slovenske železarne (Slovenian Steelworks) concern, which consists of 40 companies out of which 11 companies are producing companies (**Figure 2**). The decrease of business volume affected Slovenske železarne not only economically, but also socially, because the system gave employment to almost 19.000 people. The Slovene government, being at that time the majority (99,9%) owner, prepared a restructuring program for Slovenske železarne with the aim of overcoming the crisis, and at the same time, to transform the system into a cost-effective and more successful business system. The first restructuring period did not bring the desired results and the losses of the companies were increasing, the competitiveness of the companies decreased. Also the size of the workforce decreased. One of the reasons for the unsuccessful restructuring was the fact that the companies were not privatised. Privatization was not possible, since there was no legal basis for its implementation up until 1998 (**Figure 3**). Up to this year

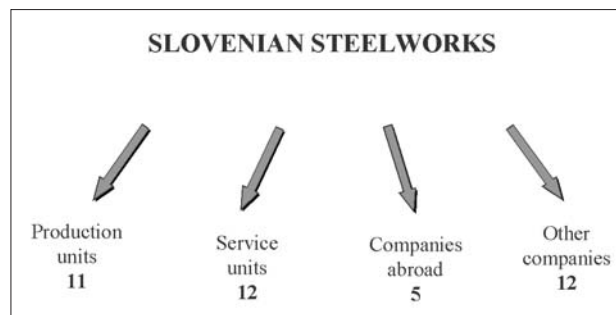


Figure 2

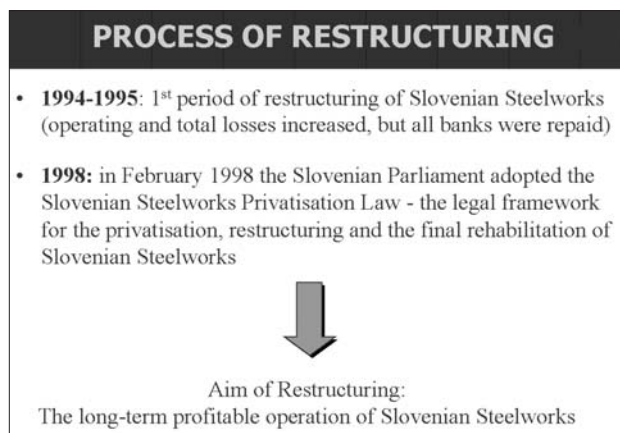


Figure 3

Slovenia had no law which would allow the privatisation of this state property.

In February 1998, the government of Slovenia adopted a group of laws, which constituted the legal basis for the implementation of the privatisation of Slovenske železarne. The laws were founded on the reorganisation plan prepared by Slovenske železarne, which defines the ways and desired goals of restructuring.

The privatisation scheme of Slovenske železarne envisaged four methods of privatisation:

1. internal distribution of shares to beneficiaries in the companies (employees, former employees, and retired). This phase is already completed, 14.046 beneficiaries paid in about 20 million ECU for the shares of three steel companies: Jesenice, Ravne and Štore;
2. transfer of the shares of Slovenske železarne to Slovenska razvojna družba (Slovenian development company) for selling them to authorized investment companies. The contract between the government of Slovenia and Slovenske železarne was signed in November 1998;
3. the increase of the capital by 38% from 226,50 ECU to 312,2 millions ECU;
4. public sale and direct sale, as special form, of daughter companies and investment of the capital of foreign strategic partners. A number of public calls for the submission of offers for the acquisition of companies was announced. The most important call was certainly the call for the acquisition of the Jeklo Štore company. At the end of April 1999 the Government of Slovenia issued the approval for the sale of the Jeklo Štore company to the Swedish bidder INEXA AB.

The result of these processes is also reflected in the change of the ownership structure. The Government of the Republic of Slovenia still continues to be the majority shareholder with 69% of shares. It is followed by Slovenska razvojna družba (parastatal institution) with 15%, ELES - distributor of electric energy with

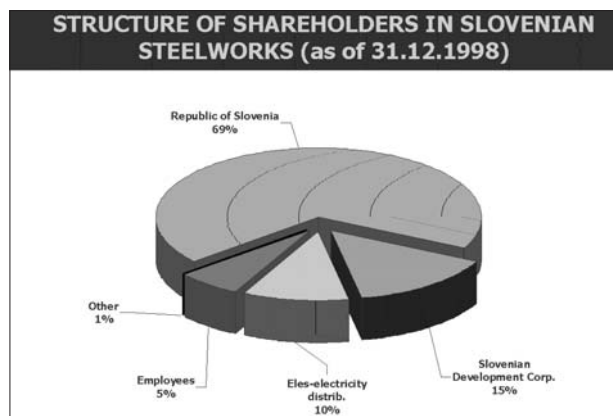


Figure 4

10% and companies' beneficiaries as well as other investors the remainder (Figure 4).

On the basis of the restructuring program, marketing, financial, organisation, and employment measures were implemented to improve the business results. In the year 1998, the results were promising, though still not as expected. Some indices show a positive trend: for example in 1998 the value of sales nominally increased by 2,7% when compared to 1997, exports by 2% and the value added per employee by 25,7%. In 1998, the system of Slovenske železarne operations was still trading at a loss, though the loss was lower than in the previous business year. Operation of some daughter companies was profitable in 1998 (Figure 5).

The results at the start of 1999 are quite promising! From the eleven remaining production companies, seven have already begun operating without losses.

It was decided to proceed even faster with the sale of small production and service daughter companies (production of screws, welding electrodes, armatures, castings,...). For the three largest remaining companies (two steel producers and one manufacturer of machines) the process of restructuring is improving. Different possibilities to acquire strategic partners for the different programs of these companies are being investigated, but also other capital connections with interested investors are being discussed!

BUSINESS PERFORMANCE OF SLOVENIAN STEELWORKS in the period 1996-1998

	1996	1997	1998
Number of Employees (per 31.12.)	7.697	7.058	6.298
Value Added			
- as % of GDP	0.61%	0.47%	0.49%
- as % of VA in industry	1.9%	1.6%	1.74%
- as % of VA in manufacturing	2.16%	1.9%	1.92%
Sales Revenue (in million DM)	604	606	607

Figure 5

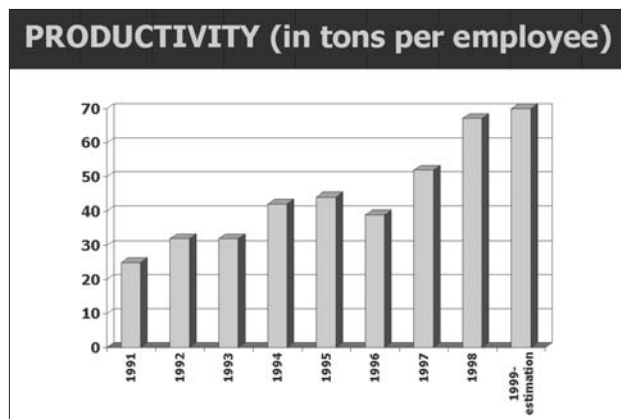


Figure 6

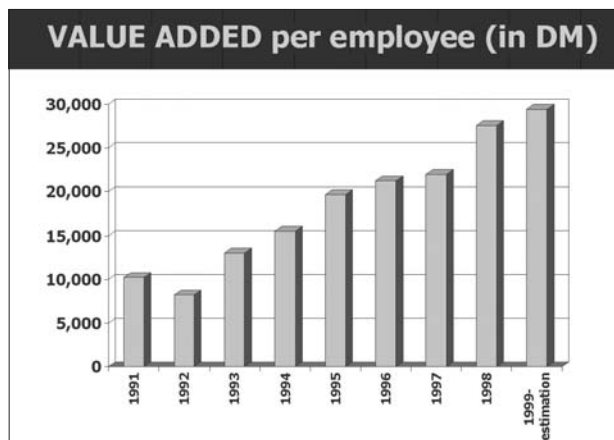


Figure 8

Poorer business results than expected were due to internal and external factors, i.e. circumstances in the international world economy and/or the world steel market. The European market for steel products deteriorated first of all because of the Asian crisis. The crisis caused a fall in prices for steel products from these countries and, consequently, an increased offer in the European market. Globally, the prices of steel products dropped considerably, e.g. for stainless steel products by 15 to 20%. The processes of integration and fusion as well as of cartel agreements between market leaders had an influence on the restriction of sales of products in the EU market of steelworks from non-EU countries. This was also the basis for the anti-dumping procedure taken against the Acroni Jesenice company, a manufacturer of stainless hot rolled plates, which strongly affected the business operations of this company in 1998. The EU commission stopped the anti-dumping procedure in March 1999.

Internal reasons for poorer than expected business results are a consequence of the still too wide pallet of production lines, in the core companies the high internal costs, and too little specialisation. The steel with small added value is gradually altered and diminished, while the production of steel with higher added value is increased. This production is technologically more

demanding and it requires more investment into the development of technology. The problems in business operations are still: too low productivity and too high internal costs, which lower the competitiveness on foreign markets (Figure 6, 7, 8). The companies in the system of Slovenske železarne also face other problems, such as: the decrease of labour force (Figure 9), shortage of financing for the production and development, and an insufficient marketing organisation.

The steel industry in Slovenia in the frame of the mother company Slovenske železarne is important, both from the aspect of economy and social relations since it creates 0,5% of the gross national product and gives employment to more than 6.000 people. The steel industry is regionally concentrated and the reduction of employment causes social problems. From the global aspect, the importance of Slovenske železarne is small, because its annual production only reaches about 400.000 tons (Figure 10). However, the system of Slovenske železarne is strongly involved into events on the steel world market, and the circumstances in this market strongly influence its business operations. The system of Slovenske železarne and its daughter companies have an important and even near to leading

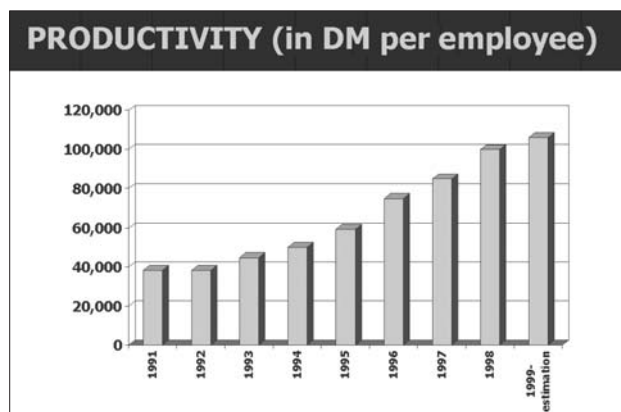


Figure 7

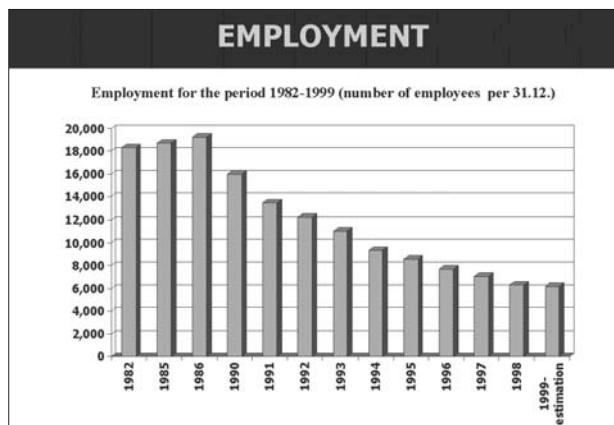


Figure 9

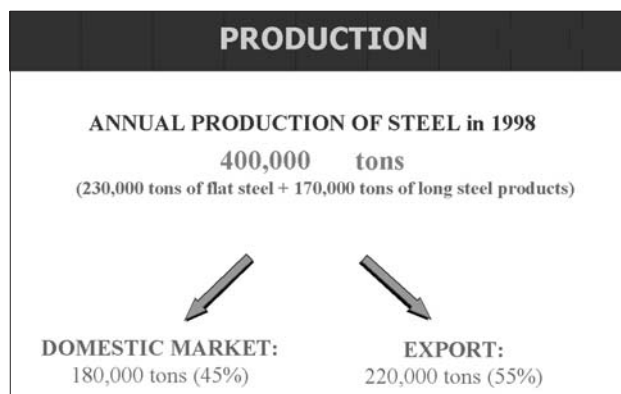


Figure 10

share in certain segments of the world steel market (Figure 11).

The reorganisation and privatisation will continue in 1999. In the governmental frame endeavours are carried by the Ministry for economy, charged for the steelworks sector and Slovenske železarne to accelerate these processes. The Government of the Republic of Slovenia is bound to this by the conditions set out by the EU Commission to Slovenia as a candidate for joining EU as



Figure 11

member country, requiring the reduction of direct support given to enterprises by the state. However the principal responsibility for the restructuring is with the steelworks companies themselves. Thus the 1999 activities will be mainly directed to improvement of the organisational structure, rationalisation of operations, improvement of marketing function, training of personnel etc. It is envisaged that the reorganisation process of the system of Slovenske železarne will be finished in a period of 3 to 4 years while the privatisation process will take 2 to 3 years.