



M.8444 – ArcelorMittal/Ilva

ACE Conference

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Disclaimer 1

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Disclaimer 2

*This presentation is based on the **provisional** non-confidential version of the decision, which is heavily redacted. Sorry about that.*

Outline

- Steel, but which steel?
- Products
- Parties
- Counterfactual issues
- Geographic market
- Market shares(s)
- Imports and Quantitative analysis
- Remedies

Steel?

Carbon Steel

vs

Stainless steel



Flat Steel

vs

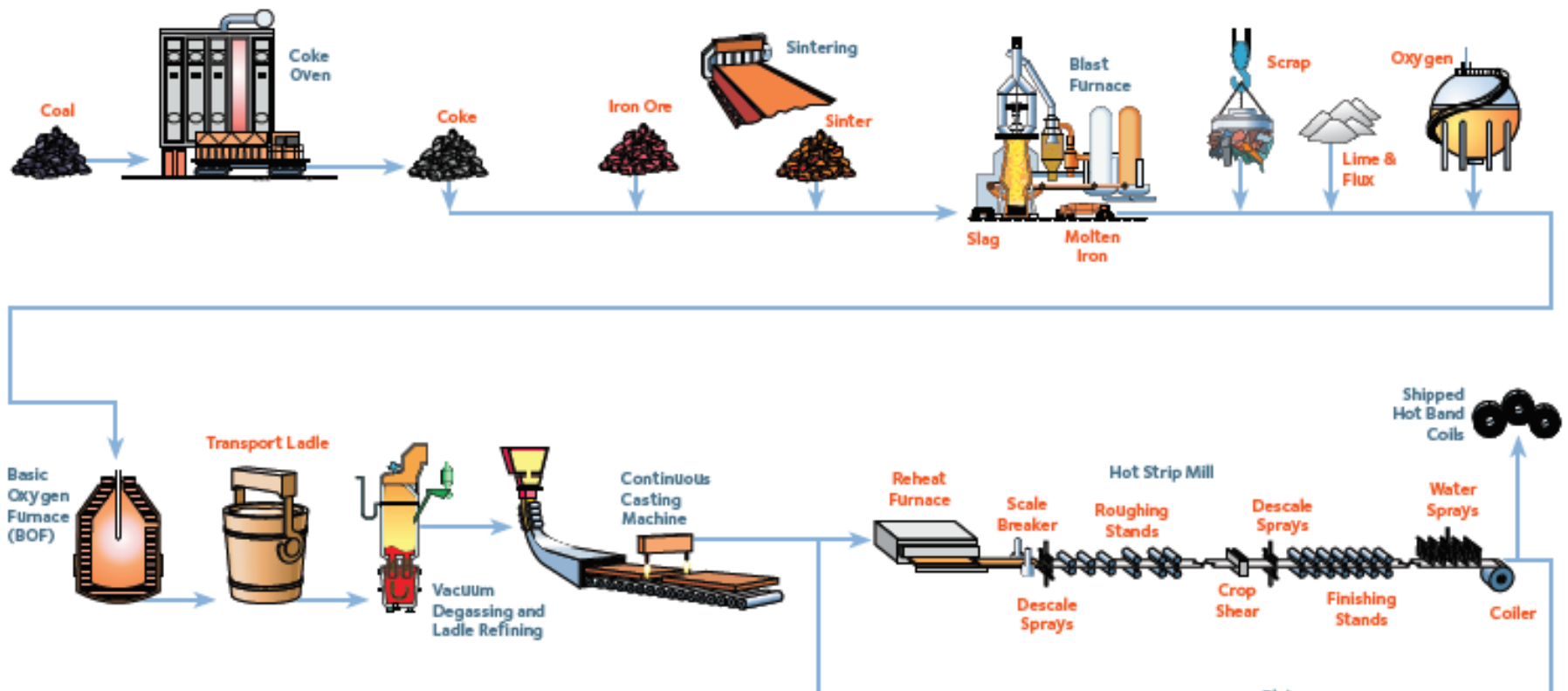
Long Steel





European Commission

How do you make flat carbon steel?



The products



Hot Rolled Coils (HR) →



Cold Rolled Coils (CR) →



Galvanized (GS) →

The Parties

ArcelorMittal

- Nr. 1 Flat carbon steel producer in the world and in Europe. Has production facilities across all Europe.

Ilva

- Largest integrated single-site plant in Europe (Taranto). Has finishing lines also in Genova and Novi Ligure.

Counterfactual issues

Ilva:

- Financially troubled company.
- Production capacity capped due to environmental reasons (in end of 2012 and in early 2015).
- In extraordinary administration from Italian govt. since 2013.

ArcelorMittal claims ***failing firm defence*** based on ex-post counterfactual.

Rejected because:

- Alternative buyer in the bidding procedure. Relevant counterfactual is ex-ante.
- Not clear that the assets would exit the market.

Geographic Market

Sizeable presence of imports is ***not indicative*** of worldwide market.

Within Europe:

- Sales distribution of producers localised.
- Imports more present in South than North.
- Customers source regionally.
- Different prices in South and North Europe.

Geographic market is EEA-wide, but strong ***differentiation*** South/Non-South particularly for lower value products (i.e. HR).

Region²²⁸	Imports sales (kt) (from non-EEA countries)	Share of imports from non-EEA countries out of total sales	As share of all imports into the EEA
<i>HR</i>			
EEA	[...]	[20-30]%	100%
Italy	[...]	[30-40]%	[40-50]%
Spain	[...]	[30-40]%	[10-20]%
Portugal	[...]	[60-70]%	[5-10]%
Germany	[...]	[0-5]%	[0-5]%
France	[...]	[0-5]%	[0-5]%
<i>CR</i>			
EEA	[...]	[20-30]%	100%
Italy	[...]	[20-30]%	[10-20]%
Spain	[...]	[30-40]%	[10-20]%
Portugal	[...]	[40-50]%	[0-5]%
Germany	[...]	[0-5]%	[0-5]%
France	[...]	[0-5]%	[0-5]%
<i>HDG</i>			
EEA	[...]	[10-20]%	100%
Italy	[...]	[10-20]%	[10-20]%
Spain	[...]	[10-20]%	[10-20]%
Portugal	[...]	[30-40]%	[0-5]%
France	[...]	[0-5]%	[0-5]%
Germany	[...]	[0-5]%	[0-5]%

Market shares(s)

Metric	HR Combined EEA	HR Combined Southern Europe
Capacity shares	[40-50]%	-
Sales shares	[20-30]%	[30-40]%
Consumption shares	[30-40]%	[50-60]%

Holistic approach considering all three metrics.

Imports

Competitive constraint exerted by imports acknowledged, but insufficient to defeat the likely price increases.

1. Imports appear to be "price-takers";
2. Less reliable source of supply;
3. Opportunistic behavior;
4. Can only contest part of the EEA demand;
5. A sizeable part of the demand does not source from imports;
6. Trade defence measures.

Quantitative analysis

Two objectives:

- Closeness of competition between the Parties.
 - Event study on the capacity cap imposed on Ilva.
- Quantify imports constraint.
 - Estimate demand sensitivity of the imports.

Quantitative analysis

Instrumental variable demand estimation.

$$sshare_{ict} = \alpha + \beta D + \gamma P_t + \eta GDP_{ct} + \rho C_t (+\phi I_c + \delta IPI_{ct}) + \epsilon_{ict}$$

Where:

- D includes dummies of the event;
- P is the log of domestic HR prices;
- GDP is the first difference of the GDP in country c ;
- C is the first difference of worldwide consumption;
- I includes country-specific trends when appropriate;
- IPI is the log of the industrial price index.

Instruments of P :

- Iron ore price and coke price.

	(1)	(2)	(3)	(4)
	ssh_ILVA_HR	ssh_AM_HR	ssh_IMP_HR	ssh_OTHEEA_HR
L3.lpdome_SEU_HR	[...]	[...]	[...]***	[...]***
	[...]	[...]	[...]	[...]
L3.lpdome_IMPCH_HR	[...]	[...]*	[...]***	[...]**
	[...]	[...]	[...]	[...]
ilvacap2012	[...]***	[...]***	[...]	[...]
	[...]	[...]	[...]	[...]
ilvacap2015_dumping	[...]***	[...]	[...]***	[...]***
	[...]	[...]	[...]	[...]
AD	[...]	[...]**	[...]**	[...]
	[...]	[...]	[...]	[...]
D.gdp	[...]	[...]	[...]	[...]
	[...]	[...]	[...]	[...]
D.ww_consumption	[...]	[...]	[...]	[...]
	[...]	[...]	[...]	[...]
_cons	[...]**	[...]	[...]	[...]**
	[...]	[...]	[...]	[...]
N	[...]	[...]	[...]	[...]
R2	[...]	[...]	[...]	[...]
K-P Underidentification pv	[...]	[...]	[...]	[...]
S-W Underidentification pv ²⁸	[...]	[...]	[...]	[...]
H-S Overidentification pv ²⁹	[...]	[...]	[...]	[...]
S-W F Statistic ³⁰	[...]	[...]	[...]	[...]
Country FE	[...]	[...]	[...]	[...]

HAC standard errors

p-values in parentheses

* p<0.1, ** p<0.05, *** p<0.01

Quantitative analysis

Overall:

- Large part of the sales lost due to the imposition of the capacity cap on Ilva diverted to ArcelorMittal (in 2012).
- The results of the second capacity cap (2015) are blurred by the simultaneous event of dumping.
- The demand elasticity of imports is relatively low, such that the import reaction to a price increase post-merger would not be strong.
- The analysis does not take into account the most recent safeguard measures.

Remedies

1. Integrated steel plant in Galati + lines in Piombino and Skopje.
2. Integrated steel plant in Ostrava.
3. Finishing lines in Liege and Dudelange.

	HR	CR	GS
Capacity Overlap	[5-10]%	[5-10]%	[5-10]%
Capacity Divested	[0-5]%	[5-10]%	[5-10]%



Thank you.