

Fit for the future

Just coming out of an extraordinarily tough year, Tata Steel Europe has been focused on increasing cost savings and raw material self-sufficiency, and working with customers to develop tailor-made, value-added solutions, says Tata Steel Europe MD **Kirby Adams**, in an interview with *Tata Review*

How bad an impact has the economic slowdown had on Tata Steel Europe, in terms of business and revenues of the organisation, and on your people?

Last year was extraordinarily tough for Tata Steel Europe, as it was for our European and North American competitors. In the first half of the financial year to the end of September, Tata Steel Europe suffered losses of more than half a billion pounds sterling. Our liquid steel production fell by almost 40 per cent and our capacity utilisation was down by a third of the previous year.

This was clearly not sustainable and regrettably, but unavoidably, we were forced to make substantial job reductions in our drive to reduce costs, to strengthen our competitiveness and to make our business fit for the future.

Last year, through our 'weathering the storm' and 'fit for the future' initiatives, we challenged everyone within Tata Steel Europe to help align our costs with the new market reality — and they have responded superbly. We are on track to realise more than £1 billion in cost savings in the current fiscal, which will be a major contribution to making us more competitive and more capable of funding our growth in the future.

The most disappointing setback for us was the unilateral termination of our Teesside steelworks offtake agreement last April, which accounted for more

than a third of our losses in the first half and will result in further job losses. We are working with employee representatives and local and government agencies to mitigate the impact on our people and the Teesside community, and we are also pursuing the four offtakers for proper compensation.

Do you think the company is on the road to a significant recovery? What will it take, from an internal and external perspective, for Tata Steel Europe to be fighting fit once again?

There are signs of recovery in steel demand in Europe, albeit more slowly than in India and South East Asia. In October, Tata Steel Europe made a modest trading profit for the first month since December 2008. For the rest of the fiscal, we expect a slow increase in volume and capacity utilisation. Higher capacity utilisation will enable us to spread our fixed costs across increased volume which, of course, will lower the unit cost for each tonne of steel we produce.

The global downturn has affected every major steel company, but the long-term fundamentals for our industry remain sound. I am cautiously optimistic that we are over the worst and can look forward to a return to sustained positive financial performance in 2010. However, we cannot afford to lessen our efforts to be sharp on costs and aggressive on sales.

How do you see the union between Tata Steel and Tata Steel Europe developing in the coming years? What have the two enterprises learned from each other and what remains to be done for this partnership to get stronger?

Considerable progress has already been made to integrate the two enterprises and realise synergies. Faced with the economic downturn, our performance



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improvement teams have been focusing their recent efforts on cost-related projects, including the use of low-cost coal for coke production and increased recycling of steel plant wastes. In the current financial year, we aim to achieve \$450 million of synergy benefits groupwide.

At the time of the acquisition in April 2007, Corus did not have any captive raw materials. Today we have 25 per cent raw material self-sufficiency across the Tata Steel group; the target is 50 per cent self-sufficiency in the medium to long term.

For 2010, Tata Steel Europe has shaped a new 'one company' strategy whereby all our manufacturing, technical and commercial activities will operate as one truly integrated and seamless organisation. We are also focusing on our supply chain in order to reduce working capital, improve customer service and speed up all processes, from initial quotation to final invoice.

Another initiative is our 'customer first' programme, which aims to focus on customers, make sure we really understand their businesses and priorities, and offer them not just products but value-added solutions, tailored to their needs.

Underlining this theme of 'one company', we intend to change the Corus brand name to Tata Steel during 2010.

Looking beyond Tata Steel itself, what have been the positives of being a part of the Tata organisation?

The Tata name and philosophy is a

unique asset which evokes trust and a sense of common purpose among our employees, our customers, our investors and the communities in which we operate, as well as opening doors into new markets where the Tata brand is especially well-known and respected. Being part of Tata Steel has been a tremendous advantage to us in weathering the storm that raged more severely in Europe than anywhere. And it will continue to benefit us as we position ourselves for a return to growth.

What do you see as the toughest challenges confronting Tata Steel Europe over the next few years?

Demand for steel will remain weak in Europe in 2010, and the market is unlikely to return to pre-crisis levels for several years. Automotive demand is expected to be hit by the conclusion of European governments' customer incentive schemes and there is little prospect of recovery in the construction market, especially in the UK, for the foreseeable future.

Steel-making overcapacity in Europe could be made worse by the threat of imports from Eastern Europe, Commonwealth of Independent States and China. And despite the depressed steel market, iron ore and coal demand is likely to exceed supply as the Chinese domestic market continues to suck in raw materials, raising spot prices globally. Any rise in raw material prices will obviously squeeze already thin margins.

Increasingly stringent European

environmental requirements and stricter CO₂ emission allowances also pose a major threat to the long-term sustainability of the steel-making and steel-consuming industries in Europe. Consequently, Tata Steel Europe will need to be highly flexible in serving customers in a global market, and its ability to compete with low-cost producers worldwide.

From a personal standpoint, what do you regard as your biggest test as a chief executive and how do you intend to tackle this?

When I joined the company in April 2009, my mission was to grow the business. And despite the fierce economic storm we've had to weather, that remains my aim. It will not be easy. Here in Europe, the economic recovery is still finely balanced and the competition is fierce. To be truly fit for the future, we must overcome significant challenges in terms of our global competitiveness through excellence in operating performance, reliability, cost efficiency, technology and customer focus.

What has impressed me most since I joined Tata Steel last April is the commitment, resourcefulness and talent that exists in every part of our organisation. As we enter 2010 and begin to emerge from the downturn, there is no doubt in my mind that we have the manufacturing and technical excellence, and the calibre of people necessary to achieve our objectives and outperform our competitors in the long term. ●