Tata Steel set for Europe venture with Thyssenkrupp

Forging ahead:The merged entity would supply about 21 million tonnes of flat steel products worldwide annually.AP

Tata Steel is set to forge ahead with a long-awaited merger of its European assets with Germany's Thyssenkrupp AG after the firms signed a memorandum of understanding to create an equal joint venture.

The move — the path for which had been eased after Tata Steel reached agreement with U.K. authorities to reduce its U.K. pension scheme liabilities — ends months of uncertainty over the fate of a potential transaction and underlines the significance of the development to the two companies as they chart the difficult waters of Europe's steel market, including overcapacity and cheap competition from abroad. The merger, if it goes through, would create Europe's largest steel company after top-ranked ArcelorMittal.

"Today's announcement marks the latest step in building a future for Tata Steel's activities in Europe which is sustainable in every sense," Tata Steel Europe Chairman Andrew Robb said on Wednesday, following the signing of the MoU for the 50:50 venture. To be named Thyssenkrupp Tata Steel, the merged entity would annually supply about 21 million tonnes of flat steel products worldwide.

Non-cash transaction

The company — created by the non-cash transaction — would generate pro forma sales of about €15 billion a year, with about 48,000 employees across 34 locations. The companies estimate the merger would generate up to €600 million in synergies a year through the integration of research and development, and commercial functions, and optimisation of procurement and logistics.

Tata Steel and Thyssenkrupp anticipate concluding the deal in 2018, and closing it by the end of that year, following a period where further detailed negotiations take place on the shape of the final agreement. The transaction would also be subject to shareholders' approval and the scrutiny of competition authorities.

Production at the joint venture would be subject to review in 2020, generating further synergies, which would be determined by a number of currently indeterminable factors such as Brexit and the regulatory environment at the time.

Job reductions

For now, up to 2,000 jobs in administration and 2,000 jobs in production are expected to be cut as a result of the deal — split equally between the two companies — though Thyssenkrupp insisted that the cuts would have been necessary even without the deal, and could have been worse.

"By combining our steel activities the burden for each partner are lower than they would have been on a standalone basis," said Heinrich Hiesinger, CEO of ThyssenKrupp, pointing to the pressures on the industry from "structural overcapacity in supply and constantly high import pressure."

He added that the companies had a complementary fit: with Thyssenkrupp's strength in working with original equipment manufacturers and Tata Steel's in its work with industrial customers, while restructuring carried out by both had created some of the most efficient facilities in Europe.

Cautious welcome

Britain’s Unite, GMB and Community Unions cautiously welcomed the MoU. In a joint statement, they said the deal delivered “industrial logic… as always, the devil will be in the detail and we are seeking further assurances on jobs, investment and future production across the UK operations.” The unions said they were seeking an urgent meeting with Tata Steel to ensure Thyssenkrupp’s pension liabilities would be ring fenced.

European steel makers have been opting for consolidation to combat the persistent challenges facing the industry including overcapacity and pricing, particularly amid competition from China and beyond. Earlier this year, an Arcelor Mittal-led consortium bid for Ilva, a large Italian nationalised steel plant.

The development marks a turnaround from last March when Tata Steel announced it was looking for a buyer for its U.K. steel business. Months later the company confirmed it was in talks with Thyssenkrupp over the merger of assets. In August, Tata Steel U.K. got the go ahead to separate its £15 billion pension scheme from the business, in a deal that cost the company £550 million and a 33% equity stake.

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