lunchtalk@bruegel

“Mittal-Arcelor: Should Governments have a Say?”

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The proposed hostile takeover of major European steelmaker Arcelor by Mittal has attracted huge media attention and helped to focus the debate on the correct response of European governments to takeovers against the background of European competition policy and globalisation. Two contrasting views were outlined by Elie Cohen and Damien Neven at the Bruegel lunchtalk on 6 March 2006.

Neven, from the Graduate Institute of International Studies, Geneva, analysed the arguments commonly used in favour of government intervention. First, governments were generally worried that “decision centres” would leave France or Luxembourg and that Mittal would not pay as much attention as the existing management to wider issues like employment in depressed areas. Although he acknowledged this was a legitimate public policy concern, he said this could be dealt with by specific instruments such as regional incentives to attract investment.

In the case of Arcelor, even if it was a privatised company it was still influenced by its former government shareholders through government appointed board members. The acquisition by Mittal would imply that the influence of governments would be reduced.

Regarding the implications of the family ownership structure of Mittal and its consequences for the standard of corporate governance evidence from Europe and the US suggested that family controlled groups actually did better in terms of value or profitability.

Finally, regarding the nationality of the owners, decisions by foreign owners might be different, but were not necessarily worse than those taken by domestic owners. The economic literature, including a study based on a large sample of acquisitions (Mueller et all 2002), showed that there was no significant difference in terms of changes to profits and sales. Foreign-owned firms tended to adopt new technologies faster, to have higher investment per employee, and higher labour productivity.

Neven also highlighted that the competition concerns surrounding the operation had been underestimated and that a closer look by competition authorities was needed.

Cohen, Directeur de recherches at the Centre National de la Recherche Scientifique, Paris, rejected the view that government disquiet over the proposed takeover, particularly in France, was evidence of nationalistic protectionism. France, he said was more open to foreign direct investment that any other major developed country and the reason why French leaders appeared more vocal than others was because France’s openness to foreign ownership left it more exposed.

He outlined a number of concerns about the economics of the Mittal bid, which had not been properly taken into account by the financial markets and other analysts who had welcomed the deal as a “good fit”.

The two companies had different business models and divergent strategic paths. The hostile bid, being paid for by shares in Mittal rather than cash, seriously undervalued Arcelor. There was “no possibility” of a reverse takeover of Mittal by Arcelor due to Mittal’s capital structure, and the deal was a deliberate attempt to buy valuable European assets on the cheap.

Cohen said the concerns expressed by European governments were justified because they had a legitimate stake in the future of a sector that had been heavily subsidised in the past; the conditions of the bid were unfair; and the inefficient financial markets were harming the interests of savers and investors.

In the general discussion one participant commented that the case for intervention by the French or other governments in such cases would be better if such intervention was based on clearly outlined principles rather than apparently “ad hoc” considerations.

Another participant said that he felt that past subsidies of the steel industry by governments was not really a justification for intervention in a private sector takeover, as support for industries undergoing change was very common. If it were a justification it would have potential implications for the whole process of European integration.

Cohen said intervention was on a “case-by-case” approach at present but he felt a policy or set of rules would arise out of consideration of cases like the Mittal bid.

The question of whether the bid represented an appropriate valuation of Arcelor was also raised by several commentators. One supported the view that Mittal should be prepared to pay much more for Arcelor as its need for the deal appeared to be the greater. This contributor felt the European Commission should have been more prominent in ensuring that Arcelor shareholders were getting fair value. However, several others thought that the shareholders and the market should be the ones deciding on whether or not the company is “fairly valued”.

Another questioner commented that concern about the bid had been greater in Luxembourg and France than in Belgium and Germany. Government intervention undermined both the single market and the freedom of capital, and had worrying future consequences for the treatment of future bids for European companies from India and China for example.

Cohen said the government intervention had been positive for shareholders and he predicted that Mittal would have to both increase its offer and make the terms fairer. However, some considered that these effects were already a distortion in the market value of the company.

Neven felt the intervention was not positive: “I do not think that either governments or academics are the right people to value companies”, he said.