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**The Czechs and Poles have new plans to save their steel plants. Will they work?**

**Investor needed**

"You need three things in place, if you want to get any progress in steel restructuring," says the EBRD's Chris Bowman. "A financial

crisis, a bold investor and a decisive government." The Poles and Czechs, both mulling over new plans to save their indebted steel mills, certainly have the financial pressure. But bold investors are few and far between in an economic slowdown. And it's certainly not clear that either country has a decisive enough government to force through a viable solution.

Over the past ten years, steel consultants have churned out dozens of proposals on privatising and consolidating the two countries' fragmented state-owned steel industries. The plans have failed for two reasons. First, government officials were unwilling to let foreign steel-makers invest in any way that would make business sense in a fiercely competitive sector. Second, consolidation schemes were always inspired by politics rather than market logic. Propped up by soft lending, therefore, the plants scuppered any chance of co-operation, and hoped for a foreign saviour to ensure their survival.

The new restructuring plans go some way to addressing these problems. That's clearest in Poland, where according to Andrew Kotas, steel consultant at Hatch Beddows, who is advising the Treasury, there has been a "sea-change in government approach". Instead of dictating terms to would-be investors, the Polish Treasury is now asking bidders to come up with their own strategies.

Four steel plants are up for sale, the two troubled steel giants Huta Katowice (now virtually bankrupt) and Sendzimira, plus two smaller and healthier mills, Florian and Cedler. In theory, at least, investors can buy one or more companies, they can take assets or equity, and they can even carve out specific parts of companies.

The catch is that preference will be given to bids that solve the problems of Katowice and Sendzimira, ensuring both plants' survival. And the big question is whether the two shortlisted bidders, India's Ispat and a European consortium, will come up with an acceptable offer by the end of this month, as planned. As one seasoned observer puts it: "No-one is wildly optimistic".

**WHAT DO YOU THINK?**

Will Ukraine's democracy

take time?

- Yes
- No
- Don't know

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That explains the Poles' fallback plan forget foreign investors for now, and start consolidating the sector's 20 steel mills to create a new giant, called Polish Steel. The government approved a basic plan in April, under which the four plants would merge by the year-end, if privatisation fails. Further consolidation, investment and lay-offs are planned over the next few years.

Trouble is, a merger alone won't solve the industry's basic problems. Debts now amount to Z110.1 billion (\$2.5bn), over 80% of which are short-term. None of the mills can meet demand for higher-value sheet steel without massive investment, and the EU won't allow a government bail-out unless it's clear the new entity is viable. "The Poles would be better off accepting a sub-optimal privatisation that can work, than an ideal plan that will never happen," says Mr Kotas.

Turn to the Czech Republic, and the debates are very similar. Foreign investors have sniffed around and left empty-handed. Most sales to local investors have ended up in a mess of corruption and bankruptcy. And the sector is so fragmented that only one of the plants, Trinecke Zelezarny, bought by Czech traders Moravia Steel in 1996, is actually profitable or viable.

Nova Hut', the Czechs' largest plant, is sinking in overdue debt, most of it from investing in a mini-mill that is still not functioning. Bankrupt Vitkovice was revitalised by the government and is now largely debt-free but part of a nonsensical conglomerate.

Enter Czech Steel, a new entity being proposed by steel consultants Eurostrategy, at the urging of the European Commission. The idea is to merge all the companies, plus an independent blast furnace, into Trinecke Zelezarny. Then the government would wipe out some of the debt and inject cash into processing equipment. That would allow Czech Steel to compete for higher value auto business.

On the surface, it makes sense. Trinecke has already hoovered up parts of bankrupt steel firm Poldi Kladno and it has good management. It also has a foreign investor, small US firm CMC, which last year took an 11% stake in the steel plant. According to Eurostrategy's Georgi Piereski, the plan would also meet EU requirements for granting state aid. If the Czech government accepts the controversial idea by summer, it could close the competition chapter that is holding up its EU talks.

Unfortunately, that might be the scheme's biggest selling point. CMC says it would support the plan if the conditions are right. But the US firm has no experience in supplying the auto industry, supposedly the key to Czech Steel's viability. Even Mr Piereski admits it's the kind of national strategy that made sense 20 years ago rather than now.

What the Poles and Czech should really be thinking about is how they could make a regional steel strategy work. Just imagine, says Mr Kotas, if US Steel, which now owns Slovakia's VSZ, joined forces with Nova Hut' in the Czech Republic and Florian in Poland. The entity would become a major force in flat products. You might get some bold investors interested in that kind of scenario, but would the governments come on board?

*Delia Meth-Cohn*