
Jinan Steel and Laiwu Steel to form Shangdong

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Jinan Iron and Steel Co Ltd and Laiwu Steel Corp in a filing to the Shanghai stock exchange confirmed formation of China's 2nd largest steel entity Shandong Iron and Steel Group by the government of China's eastern province of Shandong. The firms said "The scale of the new group is still being set. This consolidation into Shandong Iron and Steel Group absolutely would not lead to the company's merger."

Chinese government planners believe that consolidation will help China's industry compete with international leaders like Mittal Steel and Nippon Steel. It is said that provincial officials are driving this merger, with the economics of the deal likely to be overshadowed by more defensive motives. Analysts said that the proposed reorganization bears the mark of local government agencies seeking to create a local champion, making it more difficult for outside parties to take control.

Jinan Iron and Steel Group and Laiwu Iron and Steel Group are China's sixth and seventh largest steelmakers. Each of the firms produced more than 10 million tonnes of crude steel last year. Both Jinan and Laiwu are owned by the Shandong Provincial government. A combination of the two would make Shandong Iron and Steel Group second only to Baosteel Group, the world's sixth largest steel firm.

The central government orchestrated a merger of China's Anshan Iron and Steel Group and Benxi Iron and Steel Group on August 8th last year. But the parents of Angang New Steel Co. Ltd. and Bengang Steel Plates Co Ltd. have so far resisted consolidating equity or operations, let alone tackling the difficult problem of shutting plants and reducing a workforce. Although both Angang and Bengang are located in Liaoning province, Angang reports to the central government while Bengang is owned by the provincial government. Another consolidation in the north of Hebei province into Tangshan Iron and Steel Group proceeded much more smoothly. But a proposal to merge firms in southern Hebei into a group led by Handan Iron and Steel was shelved due to the resistance.

It is unclear how the merger would affect an Arcelor agreement to take a nearly 40% stake in Laiwu. That deal is pending central government approval.

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