



## Iconic Battle over a Steel Manufacturer in France

*Nicolas Véron discusses the sharp confrontation between a French industry minister and the Indian-born chairman of ArcelorMittal, which is seeking to cut jobs and close mothballed factories in France.*

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Steve Weisman: In France, a fascinating dispute has erupted between the French government -- or at least one of its ministers -- and a steel maker from India. This is Steve Weisman with Nicolas Véron at the Peterson Institute for International Economics to analyze this complicated dispute and its apparently broad ramifications for the future of France's ability to lure foreign investors to help its economy. Nicolas, please outline the nature of the dispute.

Nicolas Véron: Lakshmi Mittal, an Indian-born, London-based industrialist, launched a successful hostile bid on Arcelor in 2006. This is really the starting point of our story. Arcelor had been formed a couple of years before as a merger of three big European steel companies -- one from France, Usinor, one from Luxemburg, Arbed, and one from Spain, Aceralia. The steel industry has consolidated a lot of course in the past two decades. Mittal has been a consolidator. This was his biggest year. He had big assets in the US steel industry and in a number of emerging markets, and he took over Arcelor in what was not exactly unprecedented, but a very infrequent big hostile takeover story in a very iconic industry for Europe. So it was very controversial at that time.

Steve Weisman: You mean this sort of thing doesn't happen very often in France or in Europe?

Nicolas Véron: Yes. There are precedents of hostile takeover bids, so it's not unheard of. But they are not very frequent because governments tend not to like them and that's exactly what happened in the case of France. The French government did everything it could to prevent Mittal from taking over Arcelor. It just came out that it couldn't do that much. The French government tried to favor a competing bid by a Russian industrialist and there were some racist undertones. It was very interesting to observe, but in the end Mittal of course, adapted his bid, raised the price, made some adjustments to his own company's corporate governance, but won the day.

Steve Weisman: Because investors in the end wanted the deal even though the leadership of the company was opposed?

Nicolas Véron: Exactly. Actually, it was a case of political rhetoric in a way versus the rule of law as it governs securities markets in France and in this case also Luxemburg and the Netherlands. This was a complex legal story of course. And in the end, well, security is low and investors are low, and so a wider legal framework didn't give France the tools to prevent the deal even though it was very apparent that they wanted to.

Steve Weisman: The West is always going around the world preaching the importance of the rule of law, so that prevailed in this case. Now, fast forward to the present day. The company has a couple of moth-balled steel plants that it wants to shut down, costing some jobs. What happened?

Nicolas Véron: Yes. Basically, there's this big plant in the east of France in Florange and in Lorraine. There are blast furnaces there, which is an old technology now. The consensus in the steel industry is that to produce steel in the first place, it's better to be near the sea, because there are big costs to transport it. This is a land-locked plant, but it also has some downstream transformation units which are valuable and which Mittal doesn't want to close.

Since the controversy about closing or moth-balling the blast furnaces, it becomes very quickly a controversy about property rights and autonomy of industrialists in France to make business decisions. Of course the unions are unhappy. Job positions will be suppressed by this adjustment of the industrial plant capacity. It's very iconic also because this is one of the few remaining sites of the past glory of the French steel industry, which was seen as important from a strategic perspective in wars against the Germans. It was always our coal and steel versus their coal and steel.

Remember that the whole European Union traces its origin to an initiative just after the Second World War to merge the coal and steel industries to prevent these rivalries in the future. So there are multiple ironies and historical reminders here. This is what makes this controversy between Lakshmi Mittal, a global industrialist, coming from emerging markets, based in London, speaking only English except in his native India, and Arnaud Montebourg, minister for literally productive recovery or industrial renewal -- a very strange ministry name who is one of the most vocal and colorful members of President François Hollande's cabinet in France.

Steve Weisman: Monsieur Montebourg is trying to block this shutdown. Can he succeed?

Nicolas Véron: I suspect he won't. One reason is that Lakshmi Mittal is, if you allow me a bit of trivial speaking, is a tough cookie. He has made his name in remote places of Indonesia, Kazakhstan, very difficult emerging markets before he went into US assets and then European steel assets and Latin American ones, too. He is used to high political pressure or even physical threats in other environments. I suspect he will not yield to this pressure unless the French government is ready to give him a huge gift in exchange, which I don't think will be the case. This is obviously an ongoing negotiation. But I doubt Mr. Montebourg will have his way.

Steve Weisman: But Lakshmi Mittal did fly to Paris and meet with officials.

Nicolas Véron: With the president.

Steve Weisman: With the President, François Hollande. You're saying there might be a combination of threats and incentives. Meanwhile, France's reputation has been damaged because foreign investors are going to think twice about putting money into France. That's one line of analysis one reads. Do you agree?

Nicolas Véron: Oh, absolutely. At the same time, it's ironic because France is a very successful attractor of foreign investment. It attracts more than its share, if you measure it by GDP, population, any relevant indicator of foreign direct investment.

Steve Weisman: In fact, they have a whole campaign.

Nicolas Véron: Yeah.

Steve Weisman: "Say Oui to France," right?

Nicolas Véron: Yes, but it's not just a campaign. When you look at the numbers, France attracts a lot of foreign direct investments. It has great infrastructure, a highly-skilled workforce, a good geographical position. France is actually very successful. Here is a country where Mr. Montebourg's rhetoric resonates a lot with the population. It's not just a matter of left and right, actually it's a central-right parties or centrists' parties that have, strange as it sounds, actu-

ally been on the side of Mr. Montebourg in this story. Public opinion resonates with this. But at the same time, France has a lot to lose, of course, if it's seen as ready to expropriate an industrialist if the company does something that it doesn't like.

Steve Weisman: It's just another case of France adjusting to the realities of global marketplace as the United States has had to with its steel industry.

Nicolas Véron: Yes, but I think it goes beyond industrial adjustment. It's really about almost a sort of adjustment of the national mindset. I think this case is fascinating and iconic, not only because Mr. Mittal, at least to the French public, is almost as symbolic as you can get of the new global economy, where emerging markets and developed markets are on an equal footing. There's this global competition, and people who don't speak our language and don't look like us and who are players in our economy -- this is something that the French public opinion finds difficult to adjust to, and also because as we mentioned of the history of the steel industry.

So you have all the ingredients in this story which make it a battle royal of the old mindset, which is very present in France -- you know, the economy should look like it did in the 1960s. You have that in the US as well. But I think much more powerfully in some continental European countries and certainly in France, and the need to adjust is just fascinating to observe.

Steve Weisman: There is this element in France that it feels very strongly about its nationalist traditions. The French have this idea of French identity that's very powerful.

Nicolas Véron: Yes. And I think it connects -- even though the link might not be sound intriguing -- to some of the difficulties of the discussion about the European crisis and how to resolve it. A big component of that is how can we build governance, structures, and legitimacy and democratic mechanisms and representation at the European level.

And the paradox here, again, is that France does push for European integration in some areas. Banking union has been one example of that this year. But at the same time, there is a deep-seated reluctance -- and again, this is not a matter of right versus left; it cuts across political parties -- to accept the Federal principle and the pooling of sovereignty, including the fact that a guy or woman who might be on top of the European level might not be a French person, not even speak the French language one day. This is very difficult to accept for the French tradition.

And the country in a way is divided by many rifts, generational divides, or divides between Paris, which tends to be much more conservative or even reactionary in those matters, and people outside of Paris and the rest of the country. So it's not monolithic opposition or tension. It's a country which is very proud of its past, justifiably so in some aspects, less justifiably in others, but finds it's very difficult to adapt and embrace the 21st century in some respects.

It's a fascinating mix. In other respects, the French population and companies are very flexible to adapt to new trends. But you have this weight of the past in the collective identities that is very strong and you see it at the political level. And Mr. Montebourg, in a way, embodies it. He's young, he's very eloquent, very talented, but sometimes also he speaks as if he was stuck in a different century.

Steve Weisman: Thank you, Nicolas, for a sweeping historical analysis.

Nicolas Véron: Thank you, Steve.

