European Foundation for the Improvement of Living and Working Conditions

EMCC case studies

Financial markets driving change at company level: Eramet

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european Monitoring Centre on Change

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About Eramet

Eramet is an integrated mining and metallurgy group that produces non-ferrous metals and their chemical derivatives, high performance special steels, nickel alloys and super alloys, and high performance parts for the industry.

At the end of December 2002, Eramet had about 13,000 employees and the total turnover was □2,096 million.

Its key markets in 2002 were aeronautics (14% of total turnover), tooling (11%), power generation (9%), steel (27%), rust-free metals (17%) and other (22%). The latter category includes the automotive, transportation, mechanical engineering, chemicals and medical sectors. France accounted for 19% of the company□s 2002 turnover, Europe (excluding France) for 33%, North America for 25%, Asia for 20% and other for 3%.

Company development

Eramet was originally a nickel mining company. It was nationalised in 1982. In the late 1980s, the decision was taken to pursue a growth strategy based on a gradual expansion into complementary activities to increase the size of the group and to reduce its dependence on the nickel cycle. The plan was to rely on the specialised mining and metallurgical skills of its staff.

Over the period 1989-1994, the company acquired a number of businesses and developed a partnership with Nisshin Steel, one of the largest Japanese stainless steel producers. In 1994, Eramet was listed on the stock market while the French government remained the majority shareholder. The company has continued to grow through acquisitions in recent years and is now one of the lead players in its markets. In 2001, the entire company was re-organised, and the current structure (shown in table one) is viewed as the basis for the next growth stage into the twenty-first century.

In December 2002, the shareholding was as follows: French government (27.7%), New Caledonia authorities (5.15%), Duval family (36.94%) and others (30.21%)[1]. Altogether, the private sector owns 67.15% of Eramet.

[1] The French government□s shares are held through Aveva and BRGM, the New Caledonia authorities□ shares through SRCPI, and the Duval family□s shares through Sorame and CEIR.

Table 1: *Structure of Eramet*

Eramet Group	Responsible for strategy, finance, technical management, Eramet International, human resources, communication
Eramet Alliages	
Aubert & Duval Holding	
Erasteel	Superalloys and special high performance steels, high speed steels, forged and closed die forged parts, semi-finished products and special products (France, Sweden, United States, United Kingdom)
Eramet ManganŁse	
Eramet ManganŁse Alliages (70%)	Manganese alloys (Norway, United States), special products (United States)
Camilog (51%)	Manganese mine (Gabon), Manganese alloys for the steel industry (France, Norway, China), Manganese chemicals derivatives (Belgium, United States, Mexico), Environmental services (Belgium, United States)
Eramet Nickel	
Le Nickel-SLN (60%) New Caledonia	Nickel mines, Ferronickel and matte production
Le Havre-Sandouville Refinery (100%)	Production of high purity nickel, nickel and cobalt chlorides
Eurotungstene (51%) Grenoble	Cobalt and tungsten powder

Source: *Eramet s website at* **www.eramet.fr**

Company strategy

Eramet s strategy is to pursue the development of each of its three branches of activity by building on the existing synergies between these three core areas. It aims at being a long-term partner of its clients, whose reputation relies on the quality and trustworthiness of Eramet s products. The company seeks to achieve a rate of return on equity comparable to the return attained by its main international competitors. This will be accompanied by on-going efforts to improve the skills and motivation of its staff, and improve working and safety conditions, while contributing to protect the environment.

The role of financial markets as a driver of change

Management perspective

The liberalisation as well as other changes in financial markets in the 1990s enabled Eramet to implement its new business strategy of diversification, broadening its activity base. This is considered as a major impact by the management. Indeed, external funds were easily raised and strong stock market valuation facilitated the acquisition of existing companies through exchange of equity. It also facilitated the re-entry of private capital into the company, after it had passed into state-ownership in the early 1980s.

However, while financial market changes in the 1990s were seen as supporting the company s expansion strategy, recent developments are viewed as having more of a negative impact. Unfavourable stock market valuations are seen as putting a considerable break on further acquisitions based on exchange of equity. In light of recent developments, Eramet is striving to reduce its external net debts. For example, in 2002, Eramet reduced its net debt by 72%. Its net debt to equity ratio stood at 5% at the end of 2002, down from 19% at the end of 2001.

Changes in financial markets are viewed as having had relatively little impact on the localisation of production plants. Decisions on localisation are largely driven by the availability of resources or the proximity of customers.

The internal organisation of the company is also viewed as having been relatively unaffected by financial markets, as most of the changes that occurred flowed from the decision to re-privatise the company and the company□s own growth strategy.

Conclusion

Overall, other than allowing Eramet to undertake its acquisition-based growth strategy, financial markets are considered as having had relatively little impact on the various aspects of the business.

However, it may be worthwhile to note that the presence of foreign minority investors, such the US pension fund Fidelity, helped the company□s management to resist pressures in the mid-90s from the French government, the majority shareholder at that time, to divest itself of valuable mining assets in New Caledonia in favour of a competitor. Protection of minority shareholders□ rights and good corporate governance were viewed as critical by Eramet□s senior management[2]. Such divesture occurred later in the decade, but with proper financial compensation from the State.

[2] As part of the resolution of the New Caledonia issue, the French government transfered the mining rights to a valuable deposit, Falconbridge, a Canadian mining company which had committed itself to build a new processing plant in Northern Caledonia.

