

POSCO's Privatization Equals Competitiveness

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Yoo Sang-boo
Chairman of POSCO

any such possibility should KDB decide to move in that direction," said one POSCO official, showing all the enthusiasm for full privatization.

There are numerous reasons why privatization is so important for POSCO, the most obvious being the fall in international credibility as well as share prices which has been trading at below 100,000 won after hitting a high of over 150,000 won last September.

Certainly, the fact that the shares are so undervalued despite the fact that POSCO is one of the most robust corporations in Korea is a reason why KDB was held back from issuing the DRs.

On the day that it was to issue the overseas DRs June 20, its existing DRs were trading at \$22.125 which was lower even than share prices in the Korean stock market.

"We can understand the difficulties that the KDB is facing but the reality is that its failure to live up to its

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promise is having an even greater negative impact on share prices," one securities analyst said.

He went on to point out the fact that putting off POSCO's privatization cannot be seen as an isolated incident and Korea runs the danger of losing credibility over the entire privatization plan.

"POSCO as a company has all the necessary tools to be a truly competitive force, much more competitive than it is now, should it be privatized," the POSCO official said.

He said privatization will mean that the company will be able to make speedy management decisions without interference from the government in any manner of form.

Such speedy decision-making is vital in an industry which is changing and changing quickly, with foreign steelmakers resorting to innovative means of integrating their marketing and procurement activities.

Indeed, the POSCO officials said steelmakers around the world are accelerating the process of utilizing the Internet to improve efficiency and cut costs.

As part of this activity, four European companies — Corus of Britain, Arbed of Luxembourg, Usinor of France and Thyssen Krupp of Germany — recently agreed to set up joint website for marketing and procurement.

"Basically, the only thing that these companies will be doing individually

will be production, meaning that they are on the verge of becoming a virtually single company," one official said.

According to the POSCO officials, trading of steel products on the Internet is currently at just 5 million tons per year but this will increase rapidly to 400 million tons in the year 2010.

In that year, the procurement of scrap metal by steelmakers will have increased to 300 million tons from the current 1 million, meaning almost all such material will be bought and sold through the Internet.

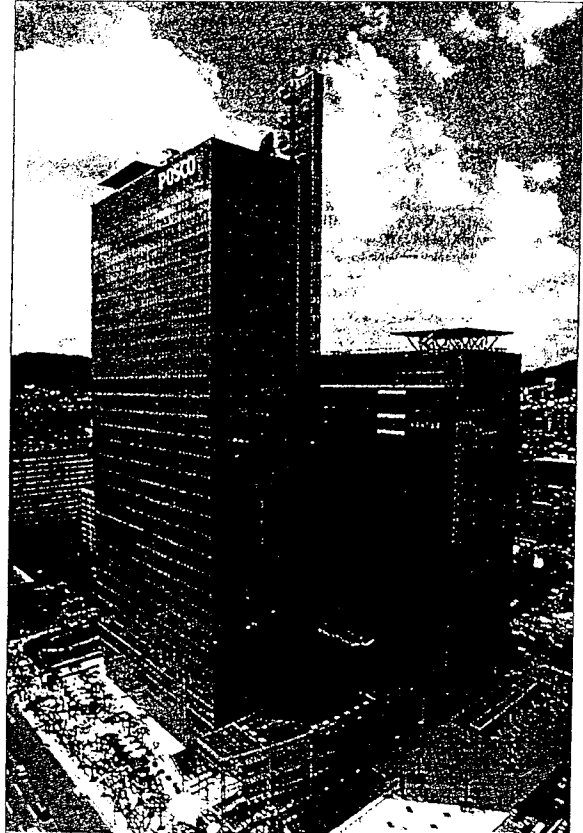
"The cost of trading on the Internet has been estimated at just \$1.3 per ton or 0.3 percent of the price, one tenth of the 3 percent in off-line trading," the POSCO official said.

As it is, Thyssen Krupp and Usinor are looking for a merger, thus pushing their Internet partnership one step and perhaps creating the world's largest steelmaker with an annual production volume of over 38 million tons.

In this environment, POSCO is doing little more than striving to increase the proportion of Internet-based trading with a plan to set up an integrated marketing website by the end of next year.

"The changes in the global market is significant that privatization is the one missing link in POSCO sustaining its competitive as the world's largest steelmaker," the POSCO official emphasized.

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Pohang Iron and Steel Co. (POSCO) has come a long way through the privatization process and all the government has to do is dispose of its remaining 6.84 percent as promised.