

International

## **Steel industry sees market pressure continuing**

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Faced with their most serious crisis, leading executives of Brazilian steelmakers expect the pressure to continue at least in the medium term and are reinforcing strategies to survive in the meantime. At the closing of the 27th Brazilian Steel Congress, held at trade group Instituto Aço Brasil, business leaders say the solution now will be exporting.

But Benjamin Steinbruch, CEO of Companhia Siderúrgica Nacional (CSN), believes the domestic market is the "future" of the sector and the best way to generate jobs, income and even federal taxes. He says the government should create mechanisms to ensure fair competition with other countries, and complained of Brazil's sky-high interest rates.

"What we need is gain competitiveness," he says. "If we were offered at least close to the conditions offered abroad, I'm sure that Brazil will be much better off. I don't want subsidies, but equal conditions," he says. If that isn't ensured, foreign investors will certainly gobble up Brazilian assets at very low prices," he says. Mr. Steinbruch points out Brazil can no longer count on money from the Brazilian Development Bank and pension funds to invest in assets.

The new CEO of Usiminas, Sergio Leite, made his first public appearance on the job and says the focus now is on survival. He believes this will be the order of the day for the next three or five years. In the meantime, he asks for a government program for the domestic manufacturing industry that makes it a priority again.

But each company also has to do its "homework," Mr. Leite says. "Restructuring and adjusting companies to the market reality [is necessary]," he says. Regarding the domestic steel market, the executive says the "bottom" is near but the recovery will take a while to begin.

André Gerdau Johannpeter noted that big steel's current crisis was a long time coming. The pressure stemming from China's surplus output on the Brazilian market has been discussed for some time. The Gerdau CEO believes the Chinese oversupply will continue for the next five to ten years.

"In the short term, what we can do is to seek exports, there will be no domestic recovery," he says. "Without exports, the figures are very serious, in terms of layoffs and units shutting down. We need structural competitiveness in the medium and long term, changing interest rates, labor laws and taxation."

In addition to criticizing Brazil's high interest rates, Mr. Steinbruch also says that debt levels are becoming a structural problem in the country. Municipal and state governments, companies and even individuals need a great national deleveraging plan, he says.

The CSN CEO suggests using some reserve requirements of banks, which today yield close to zero, to offer financing at more attractive rates. "Banks are closed now, they're not offering credit to anyone," he says. "This way we would be able to stimulate not only the steel industry but all Brazilian manufacturing."

The congress also invited experts on China and foreign trade, who said that the World Trade Organization (WTO) recognizing the Asian giant as a market economy can distort steelmaking and other global industries.

University of West Virginia professor **Usha Haley** says that Chinese mills have access to cheap and easy funding and also receive huge subsidies from local governments. She believes the goal is exactly to increase output and, while ensuring domestic employment and volume, also becoming an important steel exporter.

Aluísio de Lima-Campos, an anti-dumping expert with the American University Washington College of Law, says that article 15 of the WTO treaty specifically cites that each member country that imports Chinese products would have to recognize China in its legislation, opening room for continuing to apply trade defense measures.

But Antônio Delfim Netto, an economist who is a Valor columnist and has been Finance and Planning minister, doesn't believe in WTO action. He says Brazil needs to protect itself. "If diplomacy solved that, the world wouldn't have wars," he says.

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