

The challenges of the Latin American Steel Industry

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Brussels, Belgium – April 19, 2016



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Agenda

- I) Introduction.
- II) Short Term Challenges.
- III) Long Term Challenges.
- IV) Final Comments.

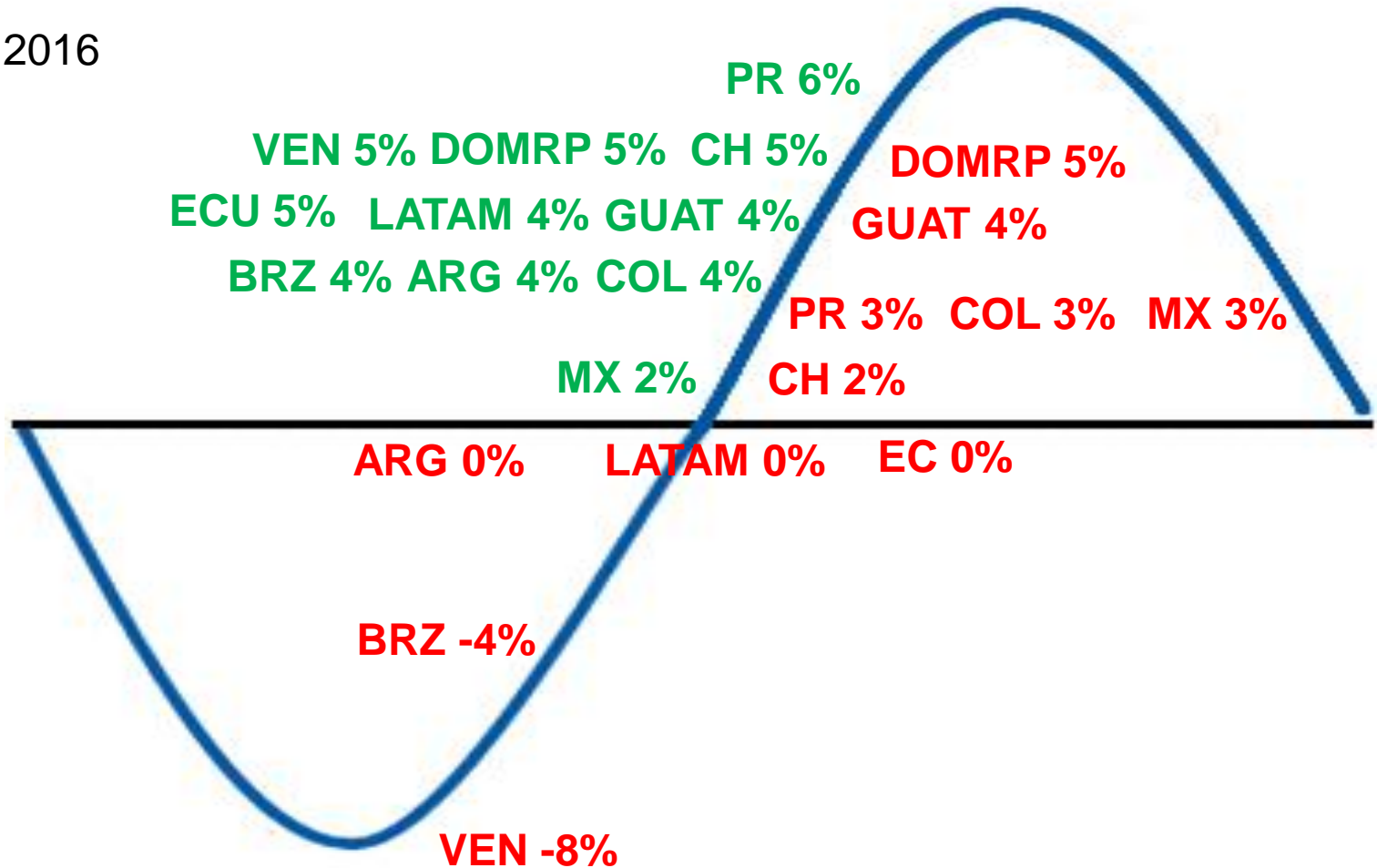
Introduction

- The region has been experiencing economic deceleration for the last five years, with 2015 becoming the first year of economic contraction since 2009.
- Latin America weakness: Falling commodities prices, slowing China's growth, tightening financial conditions, weak global demand, lack of economic reforms and institutional issues.
- This was confirmed by the latest IMF's WEO, where Latin America outlook was once again lowered, from -0.3% to -0.5%.
- The Latin American's steel market is also seriously affected by the economic slowdown and growing imports.

Short Term: External Factors to the Industry: The Growth Cycle

GREEN: 2000 - 2008

RED: 2014 - 2016



The Economic Scenario

- There is an urgent need to retake the growth path. Structural reforms are needed. The fiscal and monetary stimulus capacity is limited.

- The situation within the region is diverse:
 - There are countries that have taken some economic reforms but they are not enough to sustainable growth (Chile, Mexico, Colombia and Peru).

 - There are countries that have economic and structural limitations to sustainable growth (Ecuador, Dominican Republic and Guatemala).

 - And there are countries that are in a recession and also have serious political and social issues (Brasil, Argentina and Venezuela).

Key Driver: the Role of Government

Economic Freedom 2015

Country	Ranking
Hong Kong (1)	1
Chile (11)	12
Guatemala (55)	40
Peru (35)	49
Dom. Rep. (64)	60
Mexico (72)	71
Colombia (92)	93
Brazil (85)	94
Ecuador (105)	106
Argentina (117)	119
Venezuela (124)	123

Ease of Doing Bussines 2016

Country	Ranking
Singapore (1)	1
Mexico (39)	38
Chile (41)	48
Peru (35)	50
Colombia (34)	54
Guatemala (73)	81
Dom. Rep. (84)	93
Brazil (120)	116
Ecuador (115)	117
Argentina (124)	121
Venezuela (182)	186

Short Term: Internal Factors to the Industry

- **The steel market outlook given the unsolved overcapacity issue:**
 - Economic growth below potential.
 - Reduced activity of steel end-users.
 - Weak steel demand environment.
 - Depressing prices and decreasing margins.
 - Imports taking a growing share of ASU.
 - Growing and controversial unfair trade.
 - Trade frictionws.

Latin America Steel Demand Outlook for 2016

Growth Rate (%)

Country	2015	2016	2017	Country	2015	2016	2017
Latin America	-3.3%	-2.0%	3.6%	Mexico	5.8%	3.4%	4.7%
Argentina	4.9%	-8.9%	5.5%	Peru	0.0%	3.4%	3.0%
Brazil	-16.7%	-8.8%	3.1%	Venezuela	-12.4%	-12.8%	0.0%
Chile	6.1%	-5.5%	-0.1%	Other Latam	-0.3%	5.7%	2.5%
Colombia	12.2%	1.5%	3.0%				

Other Latam: Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Panama, Dominican Rep. and Uruguay.

Long Term: External Factors to the Industry

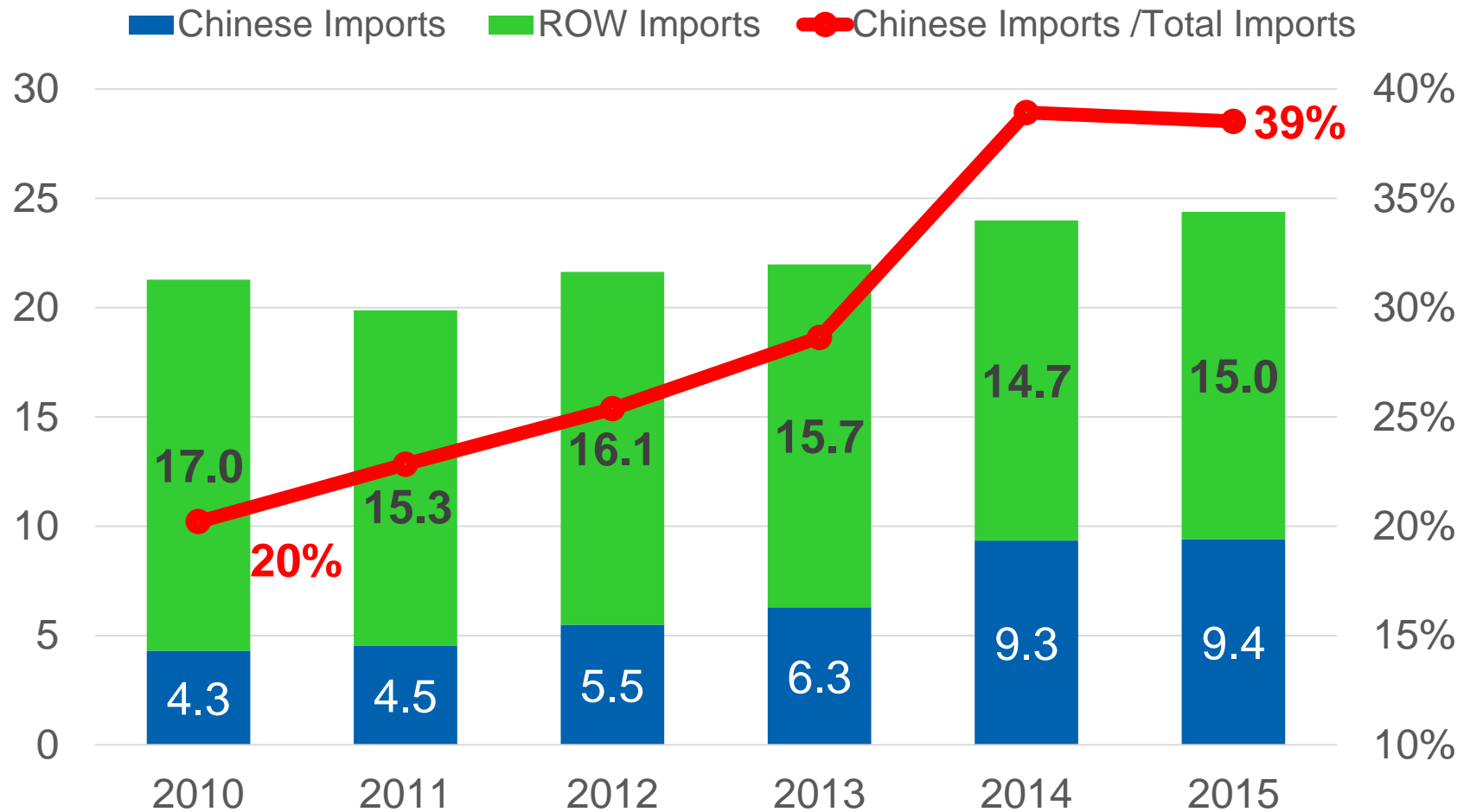
- **Key challenges for the region:**
 - Promote industrialization.
 - Export diversification.
 - Stimulate Competitiveness: A level playing field.
 - Support Innovation and human capital development.
 - Increase value-added in supply chains and exports.

Key Variables: Competitiveness & Per Capita ASU

Global Competitiveness Index 2016-2015	
Country	Ranking
Switzerland (1)	1
Chile (33)	35
Mexico (61)	57
Colombia (66)	61
Peru (65)	69
Brazil (57)	75
Ecuador (-)	76
Guatemala (78)	78
Dom. Rep. (101)	98
Argentina (104)	106
Venezuela (131)	132

<i>Per Capita</i>	2015
World	208
South Korea	1.114
Japan	497
China	489
Mexico	191
Argentina	121
Brazil	103
European Union (28)	304
Asia	250
CIS	190
Latin America	122

Long Term: Internal Factors to the Industry: Imports



Long Term: Internal Factors to the Industry:

Key challenge: Unfair Trade

	In Process		In Action	
	Total	Against China	Total	Against China
TOTAL	19	12	53	37
Argentina	1	0	2	1
Brazil	4	3	16	13
Colombia	4	3	4	4
Mexico	6	3	27	17
Peru	0	0	2	2
Dominican Republic	1	1	2	0
Chile	3	2	1*	1*

VI) Final comments

The outlook 2016 - 2017:

- The Excess Capacity issue: status quo or structural adjustment?
- Economic slowdown continues in 2016 and recovery is postponed to 2017 (?).
- The steel market remains weak and volatile.
- Steel companies and their labor force are in a difficult situation.
- Several Political and social issues affecting the region.

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