



## Global overcapacity: A growing risk for the Latin American steel industry

OECD Steel Committee  
Paris, France  
December 2013

### Agenda

- I. Is global excess capacity leading to oversupply in domestic and key export markets?
  - Causes of global overcapacity
- II. The negative impact of overcapacity on the Latin American steel industry
  - The Latin America steel market overview
  - The steel value chain
- III. The current situation is as serious as during the previous steel industry recession of the late 1990s/early 2000s
  - Facts
- IV. How to face this issue?

## I. Global overcapacity: How did it happen?

- 2008-2009 global crisis combined with capacity expansions in several countries produced an overcapacity crisis.
- China played a special role. Its tremendous growth was beyond market needs.
- Governments failed to address long-term market distortions from the previous crisis.
- SOE's continued to expand their capacity, following government policies and not the market rules.
- Otherwise, private companies stopped or hold their projects
- Obsolete capacity in many countries has not been eliminated



## The current situation

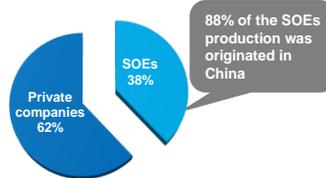
- The information presented in the July meeting confirms that overcapacity is a risk and a challenge to the world steel industry.
- More than 500 million tons of overcapacity.
- The situation is growing critical.
- Overcapacity as percentage of apparent steel consumption is 36% today. In 2000, it was 19%.
- The financial position of many companies is not sustainable in the medium term.
- This is a structural issue that need to be solved by governments policies with an integral approach.



## State-owned enterprises (SOE's) weight in global steel production

- SOE's facts (2011):
  - 50% of the top 46 steel companies are SOE's.
  - In the top 46, all SOEs companies are from China.
  - 38% of steel production is generated in SOE's.

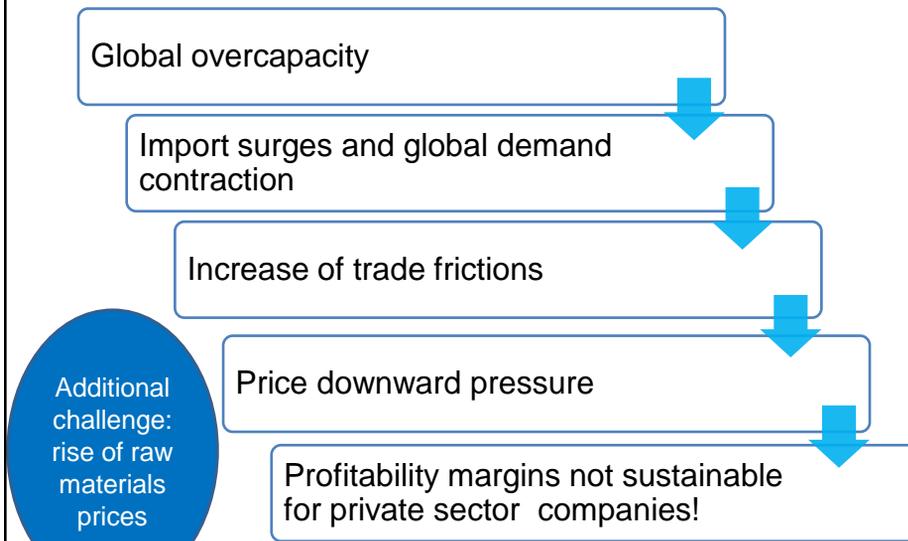
Steel production share by type of company (2011)



Source: Alacero based on OECD data

alacero

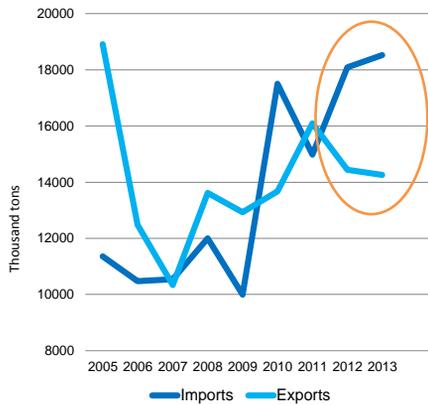
## Effects at a global scale



alacero

## II. The economic viability of the Latin American steel industry

The region passed from net exporter to net importer of finished steel



Massive imports at low prices has resulted in unfair trade duties

- Anti-dumping investigations in Latin America: 52
  - 23 are against China
- Anti-dumping measures already effectiveness in Latin America: 78
  - 43 are against China

Latin American unfair trade investigations are a result of China distorting practices but have not been enough to solve the problem.

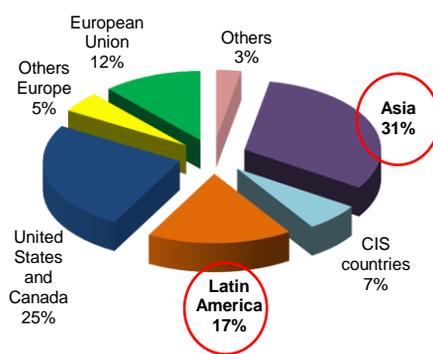
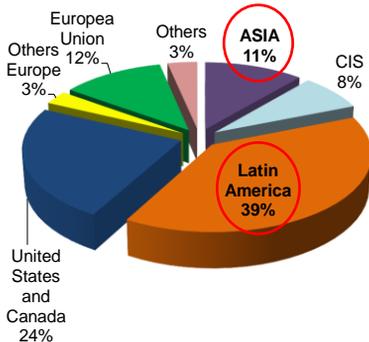
alacero

### Import sources: a growth of imports from Asia (particularly China) in detriment of intra-regional trade

Latin American Finished Steel Imports  
2005: 11,4mt

+66%

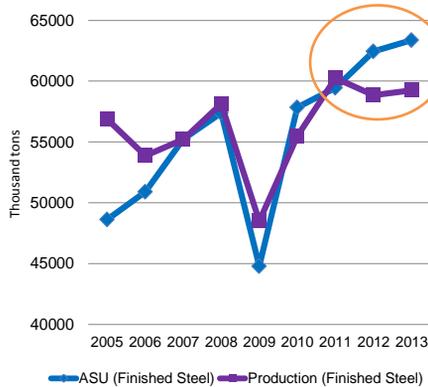
Latin American Finished Steel Imports  
2012: 18,8mt



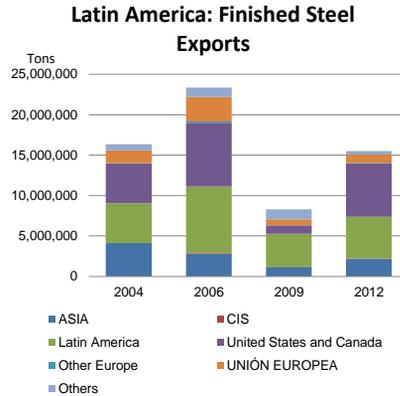
alacero

## Latin America steel market overview

Consumption is being supplied by imports and forcing a drop in domestic production



Latin American export levels have dropped due to overcapacity in the world



In 2012 imports grew 26% much faster than the 5% increase in consumption



## The steel value chain: Customer base at risk

Alacero developed 3 studies on the metal-mechanical value chain, assessing the situation and identifying a deindustrialization process.

The studies were focused on the following:

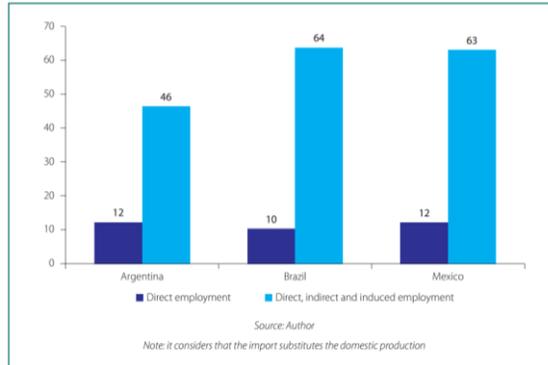
- Trade unbalances
- Employment issues
- Investment dynamics



## Imports are affecting employment

- For every million USD imported, the metal-mechanical sector loses between 46 and 64 direct, indirect and induced jobs

Graph 7 - Jobs lost as a consequence of US\$1 million metal-mechanic products imports in selected countries



In 2012 unemployment rate was 6,4%

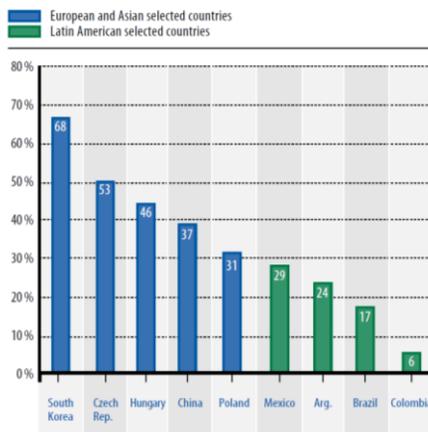
(Source: ECLAC)

Source: Alacero, Latin America metal-mechanical value chain: economic importance, opportunities and threats



## Low profitability is resulting in a lack of investment

PARTICIPATION OF THE METAL-MECHANICAL CHAIN IN THE COUNTRY'S MANUFACTURING INVESTMENTS, 2003-2011 - WEIGHTED AVERAGE (%)



The future of the metal-mechanical sector is at risk

Source: Alacero, Metal-mechanical Value Chain in Latin America: Investments Dynamics\*



## Indirect steel trade in Latin America

- Recommendations from the Alacero's studies:
  - Latin American governments need to promote the metal-mechanical value chain and take actions against unfair Chinese imports.
  - Massive and subsidized imports are causing unemployment issues in Latin America that must be addressed
  - Latin American governments must increase the industrial investments as a share of GDP around 22%-25% during the next 10 years.

Latin America has become structurally a net importer of indirect steel trade goods while local industries are disappearing.

Without a political will, the region deindustrialization is only a matter of time



## Some negative impacts are foreseen already

- Some examples (among others):
  - **Brazil's** steel industry, the largest in Latin America, is operating at a rate of 70% of its capacity against an historical average of 86%
  - CAP, a steel company in **Chile**, shot down its flat steel production line because it was unable to compete against very low-priced Chinese imports.
  - **Mexico** is having a 45 US billion annual trade deficit in manufacturing goods with China.



## Implications for the steel industry

- The Latin American steel industry is facing a Dutch disease threat, mining sector distortions and the weakness of its customer base from the metal-mechanical sector.
- If the region continues towards its deindustrialization, the steel industry will lose its customer base.
- The steel industry is at the core of industrial development.
- With no industrial development, there will be no sustainable economic and employment growth.
- Industrial activity accounts less and less in the GDP growth.
- Today, the rest of the world and Latin America are facing social and economic difficulties due to market imbalances.

The viability of the Latin American steel industry is at stake



## III. The current situation is as serious as during the previous steel industry recession of the late 1990s/early 2000s

Crisis of late 1990/early 2000s

- Overcapacity: 19% of global consumption
- Key variables:
  - Asia crisis
  - Russian Default
  - Trade protection in major countries.
- Impact in Latin America (1996)
  - Net exporter of 13,3 mt

Current crisis

- Overcapacity: 36% of global consumption
- Structural variables:
  - Chinese government intervention in the steel industry
  - Global financial crisis
- Impact in Latin America (2012)
  - Net importer of 4,4 mt



## IV. How to face the overcapacity issue?

### ALACERO INITIATIVES

- Monitoring imports and Identify unfair trade practices.
- Alert governments against the deindustrialization process in Latin America.
- The growing financial risk of the steel companies.

### GOVERNMENTS HAVE A KEY ROLE

- Take action towards global overcapacity
- Policies to levelling the playing field against SOEs. Private sector companies cannot compete with governments .
- To address indirect steel trade. There is a risk of losing the steel customers base.
- To maintain strong and effective trade law enforcement.
- Coordinated Latin American wide diplomacy efforts.
- Support the industrial development.
- Eliminate government subsidies to the steel industry.
- There is a need for an integral approach.



## Global overcapacity: A growing risk for the Latin American steel industry

OECD Steel Committee  
Paris, France  
December 2013