RESUMING GROWTH DEPENDS ON EXPORTING

Brazilian production of crude steel will probably end the year 7.6% smaller than in 2015, in a total of 30.7 million tons, according to predictions from Brazil Steel Institute. As for internal sales of steel products a decrease of 10.1% is predicted, coming up to 16.3 million tons. Apparent steel consumption in the Country should be 17.9 million tons, which represents a reduction of 16.2% in comparison with last year. If this result is confirmed, there will be a return to 2009 standards. Apparent consumption should grow 3.5% in 2017, comparing with the current year, while sales should increase by 3.6%.

Intensity of decreases in performance of indicators for the Brazilian steel industry is diminishing, which allows us to say that the worst is maybe over. However, this new scenario does not guarantee strong recovery of the sector, as it is still a difficult one due to continuance of the combination of structural and conjuncture factors. With a still weakened internal market, the only way for growth in the short term is exportation. For that, we need the competitive equality provided by compensation of non-recoverable taxes over exportation and reduction of financing costs that raise the cost in Brazil. A partial solution in the short term is to raise the tax rate from REINTEGRA to 5%.

With the lack of competitiveness of the Brazilian industry, exportations continue to decrease. Year to date from January to November there was a 0.2% decrease in comparison to the same period last year. The year is predicted to close in 13.2 million tons of exported Brazilian steel and income of US$ 5.5 billion. Added to internal asymmetries, the international steel market faces excess of production capacity, causing predatory practices and unfair competition to prosper.

Out of the 780 million tons of excess installed capacity for steel in the world, over 400 million tons are in China. Competition is unfair because companies receive strong subsidy from the government of that country. Chinese exportation of steel, which in 2015 reached over 110 million tons, are, this year, at a pace of 115 million tons. In 2000 China had 1.3% participation in direct importing of steel to Brazil. In 2015 it reached 50.2%. It is against this predatory competition that governments of several countries are fighting, using different measures of commercial defense. Brazil should not be different, under penalty of worsening the situation of the industry.

Brazil Steel Institute considers as urgent the compensation of the lack of competitiveness face other countries, with increase of the REINTEGRA tax rate to 5%, as established by paragraph 2nd, art. 22 of law 13.043/2014 and improvement in formatting of the financing line Exim from BNDES. Additionally, local content policies should be encouraged.
Brazil Steel Institute gathers the steel production chain in Rio de Janeiro

*Councilor Jorge Gerdau is honored during the event*

Held on 29/11, the traditional fellowship lunch of Brazil Steel Institute happened at the Windsor Atlântica Hotel, in Rio de Janeiro and brought together approximately 120 people from the mechanical metal chain. We highlight the presences of vice-governor from the state of Minas Gerais, Antônio Andrade, state legislator by Minas Gerais, João Alberto and the sub-secretary of state, commerce and services of Rio de Janeiro, Dulce Ângela de Carvalho.

During lunch, political consultant Gaudêncio Torquato, winner of the Esso Prize and full professor at the University of São Paulo, gave a lecture about the current political-economic scenario in Brazil. Torquato highlighted that the perspectives presented to Brazil are better than the current characteristics, as renewal of confidence is already being observed and institutions are working as usual, even with the existing tensions between the judicial and legislative powers. The political consultant also talked about the repercussions of the main points of action of the current government.

“We can observe that the federal government may obtain, in a short period of time, approval of the PEC that puts a cap on public expenses, its major goal. Social security reform and modernizing the work legislation will be the next great challenges”, stated Torquato.

In addition to these points, the political consultant also highlighted that repatriation of resources is presented as a positive point for the government and states intentions, as it allows relief in the budget.

Torquato also added that the government promises not to increase the tax burden, trusts that the new by-laws of public companies will bring more credibility to the governmental structure and is also working under the perspective of a new law for regulation agencies. According to him, the political crisis will only go away when the economy starts to adjust.

Still during lunch, after the initial welcome messages from the president of the Board of Directors of Brazil Steel Institute Alexandre Lyra, Dr. Jorge Gerdau who was saying goodbye to the Brazil Steel board after many years of contribution to the brazilian steel sector and two terms presiding the Brazil Steel Institute was honored.

Next, Brazil Steel gathered the press for a conference, where review of performance numbers for the brazilian steel sector in 2016, predictions for 2017 and sector data in october were presented.
Expectation for resuming growth of the steel sector in Latin America marks Alacero 57

Brazil Steel Institute supports the event with activity coordination

Between the 24th and 26th of October 2016, the Alacero-57 Conference and ExpoAlacero were held in Rio de Janeiro, it is considered the most important event of the steel production chain of value in Latin America. Promoted by the Latin American Steel Association (Alacero) with support from Brazil Steel Institute, the event brought together 620 representatives from the steel and metallurgy chain from several countries, with 268 brazilians, and had the presence of renowned lecturers from the economic sector, the international steel and mining sector and booths from large companies.

The event was permeated by the idea that expectations for 2017 is to resume growth of the steel sector, with increased consumption in Latin America, even though excess of the world capacity for steel is still a reason for concern. It is understood that the worst is over and that the current hope if of gradual growth for this industry. There was also consensus that the region needs to promote policies that foster competitiveness of crude steel materials and innovation to resume growth of the steel production chain of value, in addition to defining a strategy to fight unfair commerce caused by chinese imports.

Brazil Steel Institute defends 5% Reintegra in 2017

A program to recover taxes paid for exporting is considered essential for the survival of the entire brazilian manufacturing industry

Conducted by the Brazilian Foreign Trade Association (AEB), a combination of nine entities – Brazil Steel Institute, Abicalçados, Abimaq (machinery and equipment), Abinee (electrical and electronics), Abiquim (chemicals), Abit (textiles and garments), Anfavea (vehicles), Eletros and Sindipeças – has prepared a study that shows that the 5% tax rate for Reintegra in 2017 may generate gains of approximately US$ 15.5 billion for the brazilian economy and approximately 400 thousand direct and indirect job openings. According to the document prepared by the entities, with this measure the manufacturing industry would be able to occupy its installed production capacity better.

Brazil Steel Institute’s Executive President, Marco Polo de Mello believes that the steel sector, which does not rely on any government subside or support, loses competitiveness due to the existence of systemic asymmetries in the Country, such as high interest rate, heavy tax burden and cumulative taxes. “The new government brings hope of stopping this paralysis. Participation of the manufacturing industry in the GDP was 26% in 1994 and today it is approximately 11.4%. We need to straighten out the economy, especially the tax burden part and prioritize resuming growth. A key factor now is exporting, as the internal market will not recover at the short term. The only way to activate the manufacturing industry is through exporting, however we need to compensate tax residue. Therefore, this would be the ideal moment to increase the Reintegra tax rate to 5%, a mechanism accepted by OMC that was removed by the Government”, says Marco Polo. Reintegra is not tax subsidy and is definitely not a tax waiver, it is actually returning the taxes that were paid beforehand by companies that produce and export. The document prepared by the Association, which intends to provide competitive isonomy and greater insertion in the international market, has already been taken to the Government.
Gerdau, in a joint venture, starts production of parts for the wind power industry in 2017

A joint venture to produce parts for wind power generation towers from forged steel was approved with no restrictions by CADE

The joint venture formed by Gerdau and Japanese companies Sumitomo Corporation and The Japan Steel Works (JSW) has just been approved, with no restrictions, by the Administrative Council for Economic Defense (CADE) in Brazil. With that we are able to confirm the project implementation schedule announced in January of the current year. From the end of 2017 on, the enterprise, located in Pindamonhangaba (SP), will start to supply forged parts for wind power generation towers. In addition to equipment for the wind power industry, the new company will also produce cylinders for the steel and aluminum industry, products that are already being produced by Gerdau and commercialized in over 30 countries. The total capacity for parts for the wind power industry and cylinders should reach 50 thousand tons a year.

The joint venture will involve approximately R$ 280 million in investments to acquire new production equipment. Gerdau in turn, shall allocate mainly the assets for production of cylinders. The enterprise will supply forged steel for production of parts for wind power generation towers — main axle, blade bearings and tower bearings. Approximately 100 new direct job openings will be created.

“The wind power industry is a market with high growth potential in Brazil over the next few years and the partnership with Sumitomo Corporation and JSW will allow development of high technology products for our clients and, consequently, good business opportunities for Gerdau, says Gerdau’s director for Special Steel in Brazil Fladimir Gauto.

Diversão em Cena ArcelorMittal is a great hit with the public in 2016

Over 56 thousand spectators at five cities in Minas Gerais and one in São Paulo attended the programming.

Diversão em Cena ArcelorMittal (Fun on Stage by ArcelorMittal) ended its activities on November. Programming totaled 164 performances with large public attendance. In total plays led over 56 thousand spectators to theaters in Belo Horizonte, Juiz de Fora, Itaúna, João Monlevade, Sabará and Piracicaba. Just in Belo Horizonte, the capital of Minas Gerais, there were over 39 shows attended by 16 thousand people. Considered as one of the main projects for children in Brazil, Diversão em Cena ArcelorMittal is made possible by the State Law to Foster Culture and its purpose is to contribute for public education with quality shows.

SINOBRAS celebrates 10 years of operation and contribution of the development of Pará

On the past November 6th, SINOBRAS celebrated 10 years of operation in Pará contributing to economic and social development of that region. The company currently generates approximately 1.200 direct jobs in Marabá (PA), where it is located, with 90% from these employees being from the state of Pará. One of the main company values in sustainable development, which is why its production process has fronts that act in water recovery, sewage, bio-reducers, reutilization of gases and operation of a Sintering Plant that recycles nearly all by-products generated by steel production processes. Additionally, 70% of crude materials used in production comes from scraps, recycled material, making it the largest recycler in the North and Northeast regions. In an expansion stage, SINOBRAS will more than double its production capacity, with an investment of US$ 200 million, generating, among other benefits, growth and development for the entire state of Pará and the entire north region, in addition to new direct and indirect job openings.
Vallourec makes merger of the two main steel companies in Brazil official

The Vallourec Group, world leader in premium pipe solutions, concluded on October 1st, 2016 the merger of Vallourec Tubos do Brasil (VBR) with Vallourec & Sumitomo Tubos do Brasil (VSB). At the new Company, called Vallourec Soluções Tubulares do Brasil, Vallourec holds majority interest of 84.6% and Nippon Steel & Sumitomo Metal Corporation (NSSMC) and Sumitomo Corporation hold 15% and 0.4% respectively.

This merger is one of the strategies already announced by the Vallourec Group in its industrial and financial restructuring plan, with the purpose of reinforcing Group competitiveness, developing a highly competitive pool of production of seamless steel pipes in Brazil. Rationalization of Brazilian operations will be concluded on the second half of 2018. The Barreiro Plant in Belo Horizonte will focus on steel pipe production, maintaining operation of laminations and pipe finishing plants. The Jeceaba unit will concentrate the entire production of pig iron and steel and also production of seamless steel pipes.

CSP reaches important production milestones

The thirtieth plant in the country and the first integrated one in the Northeast Region, the Companhia Siderúrgica do Pecém (CSP) reached important production milestones in 2016. After starting the blast furnace on June 10th, 1 million tons of pig iron was obtained on the past November 20th. Shipping of the first steel plate to the Pecém Port, at the Industrial Complex of Pecém Port (CIPP), in the municipality of São Gonçalo do Amarante / Ceará, occurred last August.

The second half of 2016 brought good number to CSP. The crude-materials yard handled, until the end of November, 1.500 million tons of iron ore, 840 thousands of charcoal and 300 thousand tons of flux, such as limestone, dolomite and quartz. As for the coking plant, responsible for producing the main fuel for the blast furnace and sintering, produced 586.090 thousand tons of coke and 279.734 dam3 of COG gas, in addition to by-products such as tar, BTX and sulfur. By using siderurgical gases in our thermoelectric plant (coking plant gas (COG), blast furnace gas (BFG) and steelworks gas (LDG)), CSP generated an average of 158 MW per hour of electricity, capable of supplying all plant equipment. Steelworks, which started production on June 20th, reached rated capacity on September 30th.

A joint-venture between the Brazilian Vale (50%), South-Koreans Dongkuk (30%) and Posco (20%), CSP prepares to end 2016 with production of 1 million tons of steel. During the 1st stage of the enterprise, the annual capacity can reach up to 3 million tons of steel plates. A US$ 5.4 billion investment which, in addition to contributing to the 12% increase of the State GDP and 48% of the Industrial GDP since full operation of the plant, is already employing over 2.500 professionals in addition to opening 1.200 outsourced positions and another 12.000 indirect ones.
Brazilian production of crude steel was 2.4 million tons in November 2016, which represents a decrease of 4.8% in comparison to the same month in 2015. As for laminates, the 1.8 million tons represents a 3.4% decrease in November in comparison to the same month in 2015. With these results, accumulated production from January to November 2016 came up to 28.1 million tons of laminates, which represents a reduction of, respectively, 8.9% and 7.7% over the same period in 2015.

National apparent consumption was 1.5 million tons of steel products in November 2016. This volume was 2.3% higher than the one registered in the same month of the previous year. Year to date until November 2016, apparent consumption reached 16.8 million tons, 16.1% lower than records for the same period in 2015.

Internal sales of steel product were 1.3 million tons in November 2016, a decrease of 1.9% in comparison to November 2015.

Year to date for the period up to November, internal sales were 15.3 million tons, which represents decrease of 10.4% against the same period of the previous year.

November imports reached 67.6% in against November 2015, in a total of 228 thousand tons. This volume resulted in a US$ 172 million amount. The quantity imported from January to November was 1.7 million tons, corresponding to US$ 1.5 billion. This result means a decrease of, respectively, 45.8% and 48.4% against the same period in 2015.

Exporting of steel products in November 2016, reached 1.1 million tons, which represents an amount of US$ 488 million. In comparison with the same month from the previous year, there was an increase of 25.4% in volume and 29.4% in price. Year to date, 12.1 million tons were exported, with revenue of US$ 5.0 billion. Results year to date from January to November 2016 were a decrease of 0.2% in volume and 16.8% in price when compared to same period in 2015.

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**Crude Steel Production**

![Graph showing crude steel production from January to December 2015 and 2016](image)

**Brazil Steel Institute wishes you Merry Christmas and a happy 2017!**

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