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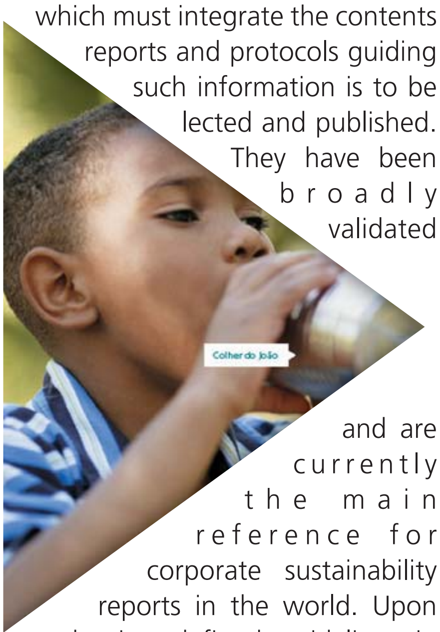
Steelinfocus

IBS BRAZILIAN STEEL INSTITUTE

SUSTAINABILITY IN THE STEEL INDUSTRY

The IBS will publish next month the Sustainability Report of the Brazilian Steel Sector. This publication brings information regarding management practices and policies and presents 2007 results of the companies associated to the Institute of economic, social and environmental nature. For the 2nd year in a row, the structure and contents of the report were defined in accordance with the Guidelines for Elaboration of Sustainability Reports from the GRI – Global Reporting Initiative. GRI guidelines consist of principles for the definition of the contents of the report and guarantee the quality of the information reported, besides including performance indicators which must integrate the contents of the reports and protocols guiding how such information is to be collected and published. They have been broadly validated and are currently the main reference for corporate sustainability reports in the world. Upon adopting defined guidelines in the elaboration of corporate reports, the IBS demonstrates the effort of the companies in the sector towards establishing increasingly solid practices of transparence and management of social-environmental impact associated to their activities. This initiative also aims at encouraging the adoption of this kind of publication as a support tool for management and interaction with different publics. The elaboration process of the 2008 Sustainability Report was coordinated by IBS with the orientation and support from consulting firm AMCE Negócios Sustentáveis, counting with the participation of a large number of collaborators from the companies associated to the Institute. It comprised an important work of adjusting indicators and aligning criteria for the collection of data and information among all steel companies. This process provided significant contribution in increasing the available statistics regarding Brazilian steel production - especially concerning social-environmental aspects - and, besides generating relevant learning in the field of sustainability, creates a pattern for the publication and comparativeness of performance data among companies in the sector. Increasing market requirements have been imposing new attributes to companies'competitive features - even for products traditionally seen as commodities - and enhance the fact that economic results are increasingly attached to social-environmental results resulting from strategic decisions made. This scenario enhances the necessity of such aspects as Human Rights, labor conditions, use of resources, among others, to enjoy higher consideration in the integrated evaluation of the companies' results. Since these are complex issues involving a large number of players and relationships, the handling of sustainability matters does not admit off-the-shelf formulae or single-handed decisions or actions. It is only viable when there is permanent consideration of legitimate interests involved, when dilemmas are faced and transparence is adopted in difficulties. The continuity of the work started with the elaboration of the sectorial sustainability report may encourage the dialogue necessary for such. It is an opportunity to strengthen values and positions owed to the society as a whole.



Ana Esteves | AMCE

Marco Polo de Mello Lopes
Executive Vice-President of IBS

Steel is not the problem. Steel is the solution

Recurrent articles have been published in the press regarding the supply and prices of steel products in the domestic market. These articles generally convey the wrong evaluation that there is a shortage of products in the steel market and that there are price speculating movements by the steel companies. Therefore, it is sought to indicate the existence of abnormalities where there is none. Who is interested in promoting an image that definitely does not correspond to the reality of the steel sector and that undermines the efforts of steel producing companies to provide competitive supply to the domestic market?

Despite the significant and somewhat surprising growth observed in 2007 in the demand for steel by the main consumer sectors, the Brazilian steel market successfully carried out all necessary adjustments for the full supply of the domestic market. It has thus met the demand from civil construction, which accounts for 30% of total consumption and grew 19.5% compared to 2006. The sector has also met demand from other sectors such as automotive (26.8% of consumption) and capital goods (20.8% of consumption), which presented growth of, respectively, 14.4% and 28.7% compared to the previous year, and which bear a significant share of their output destined for exportation.

The Brazilian steel industry is once again breaking historical records in production and domestic sales of its products. It is thus keeping pace with market growth through systematic adjustments in the mills' production programs and in shifting from exportations to the domestic market although, in the process, taking up revenue losses due to the lack of predictability of some consumption segments.

Despite its steel production capacity 60% higher than domestic demand, the industry is developing a capacity expansion program from the current 41.0Mt to around 66.7Mt by 2013. This program, 70% already under way, comprises investments amounting to US$ 45.7 billion. Its implementation, besides preserving the sector's capacity to provide full supply to the domestic market, will allow the increase of exportations. Ste supply, therefore, will not be a problem for the Country's economic growth, as long as there is predictability regarding the necessities of consuming sectors.

Another issue with frequent inaccurate evaluations regards domestic prices for steel products.

There have been price readjustments, but those are entirely compatible with movements and practices observed in the international scenario and reflect basically increases in prices of raw materials, which have reached all-time high levels. It must be mentioned as an example, increases occurred for iron ore (70-85%), metallurgic coal (over 200% and up to 300%), pig iron and scrap (over 100%). Similar values are observed for most ferroalloys and non-ferrous metals used in steel production.

Domestic prices for these raw materials make reference to international prices, whether because Brazil is a large exporter (e.g. iron ore and some ferroalloys) or because we depend solely on importations (e.g. coal).

Therefore, comments regarding price increases for steel products that do not make the due consideration of cost increases beyond the control of steel producers are pointless. The Brazilian steel industry made direct exportations of around 10.3Mt of products. Exportations by steel-intensive sectors (automotive, autoparts, capital goods, etc.) amount to more than 3.6Mt of steel contained and purchased almost entirely in the Country, since importations under the draw-back mechanism are not significant. These are, in our opinion, the most effective indicators of competitiveness of Brazil's steel.

Companies must comply by December with European regulation controlling the presence of chemicals

The Brazilian steel industry has been following up on discussions over the new regulations on the circulation of chemicals contained in materials and products in the European Community, called REACH - "Registration, Evaluation, Authorization of Chemicals". The first stage in complying with REACH is the pre-registration, which ends on December 1, 2008. The IISI will hold, on October 02-03 in Helsinki, Finland, a seminar on the matter which will count with the presence of representatives of ECHA, the agency in charge of taking REACH into operation. As from 2009, products with substances which are not pre-registered will not be allowed in Europe no data, no market.

IBS holds Steel seminar for journalists in Recife

The IBS held on September 02-03 a Seminar on the Steel Industry for Journalists in Recife-PE, with the participation of 45 people, among representatives of the press of Pernambuco, Bahia and Ceará, and journalism students. This is the second cycle of seminars for the press sponsored by the IBS. Journalists in Rio de Janeiro, São Paulo, Belo Horizonte, Vitória and Porto Alegre have already participated in this event. In Recife, the participants could visit the Gerdau Açonorte plant and become familiar with the steel production process. Given its successful model, the Seminar on the Steel Industry for Journalists was maintained as an action within the Image Adjustment Plan proposed by the consultant Gaudêncio Torquato and approved by the IBS board on August 27. Over the two cycles, the event was attended by more than 500 journalists throughout the country.

Discussions on electronic billing

The group of companies participating in the Electronic Billing National Project suggested the establishment of a workgroup for this issue at the IBS, aiming at discussing points possible to be improved, evaluate modifications proposed during the ENCAT - National Meeting of State Tax Administrators and Coordinators - and assist in the interface between the ENCAT and the taxpayers. The inclusion of new segments which did not participate in the pilot project should add importance to the subject.

Outsourcing towards specialization

Outsourcing is a process in the search of excellence by the hiring company, which can then dedicate to the improvement of its core activities, delegating specific tasks to specialized companies. In Brazil, given the absence of legal provisions and effective control mechanisms in this field, there is no stimulus for the progress of good outsourcing. The only guidance in this field is Decision 331 by the Supreme Labor Court, which is confusing and incomplete. Progress has been made in the Congress, but projects under discussion have been put aside. Bill 4302/98 is now coming back to the agenda. Five years ago, President Lula requested the dismissal of this bill. The Presidential note is yet to be voted, what gave way for the bill to get back on discussions. It is worth noting that this bill has been discussed at the Congress and at the Senate, where it was modified, thus returning to the Lower House. Upon approval, it will be submitted to Presidential sanctioning. Common sense is expected.

IBS supports ExpoNorma 2008

ExpoNorma 2008 will be held between October 27-29 at Av. Eng. Roberto Zuccolo, 555 - Vila Leopoldina - São Paulo. The subject of the event will be "Normatization, Sustainability and Globalization". The IBS, which coordinates the Brazilian Steel Committee (ABNT/CB-28), supports this initiative by the Brazilian Association of Technical Norms (ABNT). At the stand ABNT/CB-28, participants will be able to learn about what is being developed in the field of normatization and certification of steel products. More information at www.exponorma.com.br

Steel Industry discusses climate changes

Climate changes are increasingly becoming the focus of the steel sector. The IISI held a meeting in Tokyo on 09/11 to discuss strategies and actions of the steel industry to reduce CO2 emissions in the process. The industry aims then at contributing in the global effort towards reversing the effects caused by changes in the global climate. The IISI is currently coordinating the inventory of CO2 emissions by the sector worldwide. The IBS is participating actively in the discussions and will be in charge of compiling and consolidating information concerning the sector in Brazil.

Events & Courses

Construbusiness
Venue: SESI Theater, FIESP, São Paulo
Information: www.fiesp.com.br

Latin American Steel Congress - ILAFA-49
October 26-28
Venue: Gran Meliá Hotel, Cancún, Mexico
Iformation: www.ilafa.org/eventos.htm

IISI-42 Annual Conference of IISI Members
October 06-08
Washington DC, USA
Information: www.worldsteel.org

Course
Steel Structural Systems in Architecture
Starting date: September 29
Online course
Information: www.cbca-ibs.org.br

Statistics

The Brazilian economy has been presenting a positive performance in 2008, reflecting in the production and consumption of steel. Apparent consumption of steel products between Jan-Aug reached a record 17.1Mt, 20.1% up from the same period in the previous year. This growth was fueled mostly by steel-intensive sectors. The growth in gross formation of fixed capital, bearing an all-time rate for the 1st semester since it began being calculated 12 years ago, is reflected by the increased demand for steel for machines and equipment and industrial constructions. Residential construction also maintains strong growth, boosted by the expansion in credit and increased employed population. The automotive industry is still growing indicating new production records. The impacts of the latest increases in the Selic rate on economic activity are yet to be felt.

Brazilian Steel Industry - Synthesis (*)

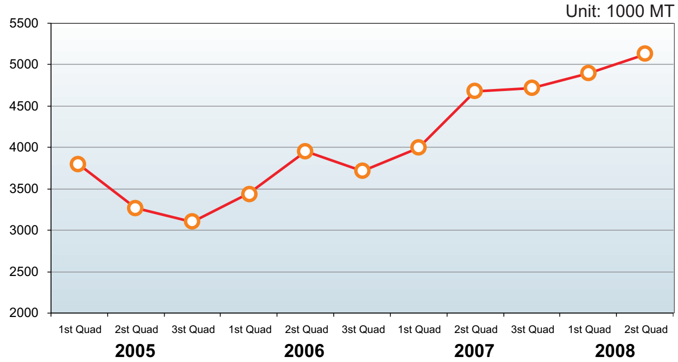
Unit: 1000 MT

Specification	1st Quad. 2007	2st Quad. 2007	3st Quad. 2007	Total 2007	1st Quad. 2008	2st Quad. 2008	2st Quad. 08/07
PRODUCTION							(%)
Crude Steel	10.703	11.432	11.647	33.782	11.541	12.246	7,1
Rolled Products	8.197	8.759	8.894	25.850	8.707	8.790	0,4
Flat Products	5.098	5.261	5.332	15.691	5.139	4.999	(5,0)
Long Products	3.099	3.498	3.562	10.159	3.568	3.791	8,4
Semi-finished for sale	1.742	1.897	2.183	5.822	2.124	2.543	34,1
DOMESTIC SALES (*)	6.161	7.155	7.234	20.550	7.508	8.092	13,1
Semi-finished for sale	178	223	225	626	257	287	28,7
Flat Products	3.690	4.266	4.195	12.151	4.318	4.497	5,4
Long Products	2.293	2.666	2.814	7.773	2.933	3.308	24,1
FOREING TRADE							
Exports (1000 MT)	3.834	3.389	3.088	10.311	3.483	3.393	0,1
(US$ Million)	2.403	2.199	2.002	6.604	2.315	3.157	43,6
Semi-finished	1.664	1.639	1.796	5.099	2.093	2.079	26,8
Flat Products	1.390	999	721	3.110	816	600	(39,9)
Long Products	780	751	571	2.102	574	714	(4,9)
Imports (1000 MT)	411	550	655	1.616	686	794	44,4
(US$ Million)	487	646	769	1.902	858	1.142	76,8
Semi-finished	26	18	9	53	11	12	(33,3)
Flat Products	242	342	453	1.037	448	489	43,0
Long Products	143	190	193	526	227	293	54,2
APPARENT CONSUMPTION (**)	6.550	7.659	7.831	22.040	8.190	8.876	15,9
Flat Products	3.996	4.673	4.712	13.381	4.898	5.125	9,7
Long Products	2.554	2.986	3.119	8.659	3.292	3.751	25,6

Quadrimestral Synthesis - Apparent Consumption (**)

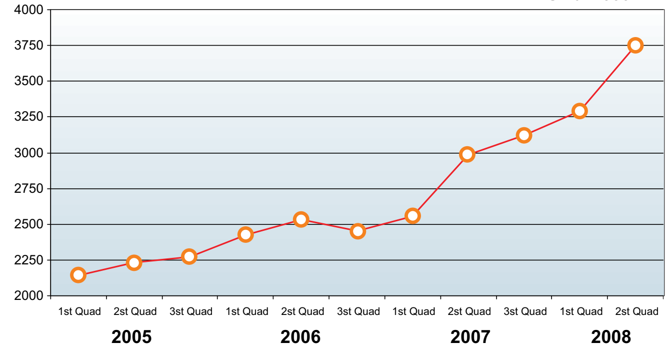
Flat Products

Unit: 1000 MT



Long Products

Unid: 1000 MT



(*) Excludes intra-park sales
(**) Domestic sales + imports, excluding intra-park sales and imports by steel companies for transformation.