

The STEEL industry in Brazil and the effects of the crisis

The Brazilian steel industry has been facing, since last October, a deeply unfavorable scenario. Firstly, the sharp fall in demand, trade and prices of steel in the global market have a significant impact on the industry, since domestic consumption does not absorb its total output. This downturn has been steep since September, 2008, following the burst of the subprime mortgage loans in the US and its aftermath in the global economy. Consequently, the international market became oversupplied, with prices reductions of 40% to 60%.

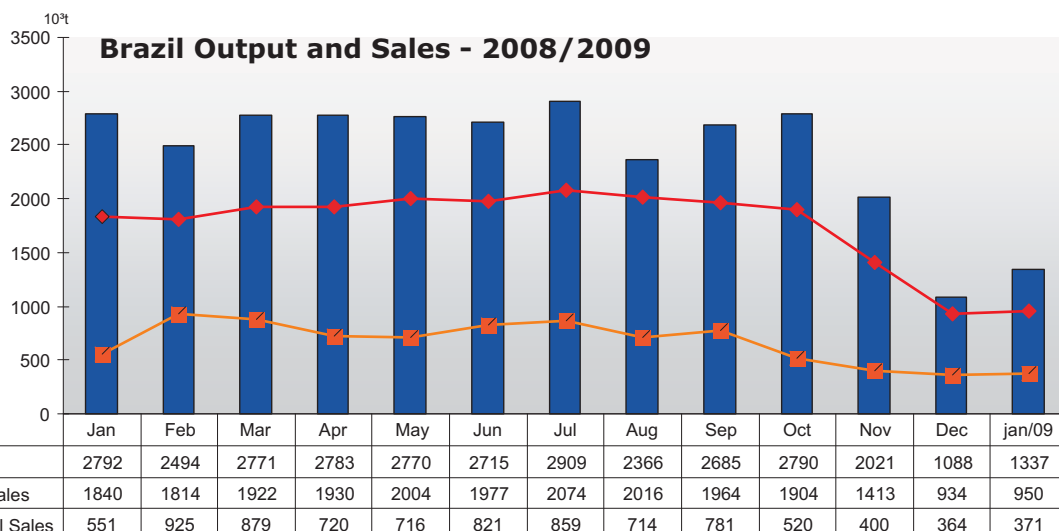
Consumption in developed countries nearly halved when compared to July/August levels. The most relevant products in Brazil's steel products' portfolio are being traded mostly at prices below cost. This reflects a scenario where companies are selling off their inventories in a rush to generate cash. Alternatively, some steelmakers have adopted this aggressive price policy to keep minimum production levels, even though covering only variable costs. Such policies are, in various economies, backed by governmental subsidies.

As a natural consequence of this scenario, many countries are adopting defense measures for their markets by means of increased importation tariffs and other mechanisms aiming at preserving the local industry against opportunist and/or harmful importations.

As from October, the three main consuming sectors of the Brazilian steel industry (automotive, civil construction and capital goods) have strongly reduced their orders due to falling consumption and the unpredictability of 2009. Domestic sales of steel products in December, 2008 were down by 33% to 52% from the average levels observed in January/October of the same year. Last January's results are practically the same as December and reflect the strong slowdown in the activities of large steel-consuming sectors.

In view of this domestic picture and of difficulties to increase or even preserve exportations, steelmakers were forced to reduce production, through total or partial shutdown of some mills, as well as putting off the investments scheduled.

Steelmaking is a capital-intensive industry, with high fixed costs; thus, the operation of the mills at 50% or 60% of their capacity has relevant negative effects on the companies' results.



Steelmakers seek alternative to face global economic crisis

Steel companies are struggling in the search for alternatives to minimize losses. Some actions taken include several agreements towards the reduction of working hours, aiming at preserving jobs and the production capacity before an expected upswing of the market still in the first semester, following measures supporting the automotive, civil construction and capital goods sector, besides the announced improvement of the PAC. Regarding foreign markets, the companies don't anticipate any improvements until the second semester.

In such scenario, the steelmaking sector deems key the fast implementation of the measures suggested by the private sector during the GAC (Crisis Follow-up Group) meetings. It is also worth mentioning that the approval of MP 449 is urgent, including the amendments presented by the productive sector regarding recuperation of credit related to exportations, which may benefit various significant sectors within the country's economy.

Specifically regarding the sector, the steel companies consider a priority the approval by CAMEX of the exclusion of eight tariff items related to steel

products from the List of Exceptions to the Common Foreign Tariff, currently listed thereby as free of importation tariff.

The persistence of such situation, defined by the Government in a scenario completely different from today's, goes against the trend observed in most steel-producing countries. Those countries have been adopting protective measures for their industry and the jobs it creates, and from unfair competition in the international steel market, which has been increasing since last September.

The measure is supported also by the steel distribution sector which, according to the National Institute of Steel Distributors (INDA), currently has a high level of inventory compared to traditional figures. In this context, the companies would have to take up unbearable losses before the competition of products imported at unrealistic prices, especially from China, a country which has been quick to adopt measures supporting its industry, thus being one of the few economies still holding relatively high growth expectations.

Steel products free of importation tariff make Brazil vulnerable

In March, 2005, 15 items related to three groups of steel products were included in the List of Exceptions in Brazil, enjoying zero importation tariffs. Today, eight products are listed. At the time, some consuming sectors claimed the market was undersupplied. Such undersupply not only became real, but there was also a reduction in domestic demand, leading companies to increase their exportations. Today, there is a world crisis, the market is down and there is an growing protectionist trend. Trade detours affecting the most unprotected countries are inevitable.

Turkey has increased its importation tariff for steel products by 8%. India increased the same tariff from 5% to the 10%-15% range, imposing antidumping rights against China and Ukraine. Russia increased the importation tariff from 5% to 15% for 11 types of flat and long steel products. The increase for 46 types of steel pipe products reached 20%.

The European Union came to adopt new antidumping rights against Chinese steel products, and voluntary restriction agreements with that country (currently under negotiation). Ecuador increased importation tariffs and imposed quotas for 627 types of products, among which some steel products. It is worth recalling that, between January and October of last year, the exportation of Chinese goods to Latin America increased 50%.

Importations verified in the first two months of 2009 show Brazil's vulnerability in this regard. In this period, importations of hot-rolled coils, for example, reached the total importations made in 2006 or 2007.

2nd National Steel Meeting: Perspectives for the steel industry

In view of the current economic scenario, and in response to requests made by its associated and partner companies, the IBS has revised its 2009/2010 schedule of events. The Institute's main event, the Brazilian Steel Congress/ExpoAço, was transferred from July, 2009, to the 1st semester of 2010, maintaining exactly the same characteristics and objectives. It is expected that by that time the conditions of the economy should be clearer and with more favorable perspectives for a business fair.

Many companies sponsoring ExpoAço (such as ArcelorMittal Brasil, CSN, Gerdau, Usiminas / Cosipa, V&M, Tenaris - Confab and Votorantim Siderurgia) have already confirmed their participation in ExpoAço 2010.

However, given the persistent need for an analysis of the sector's problems and perspectives, the IBS will sponsor the 2nd National Steel Meeting, on August 24-25 at Hotel Transamérica, in São Paulo.

Event	2nd National Steel Meeting	Brazilian Steel Congress/ExpoAço
Date	24-25/August/2009	1st semester of 2010
Location	Transamérica Hotel, SP	São Paulo
Info.:	(55 21) 2141-0001 / eventos@ibs.org.br	

Regulation of Environmental Compensation to relief investments

The impact of the world crisis on the industry is clear and dramatic. To ensure their survival, companies have cut costs and revised expansion projects. In such scenario, it is vital that the Government take measures to stimulate and relief the cost of investments. One measure persistently suggested by steelmakers is the establishment of a cap for environmental compensation no higher than 0.5% of the ventures' implementation costs. This compensation was created by Law 9985/2000, aiming at providing a complementing source of resources to create and maintain Conservation Units, and its value is determined by the environmental authorities during the licensing process. The absence of a regulation setting forth a reasonable limit for the compensation discourages the planning of new ventures, especially in the current scenario of tighter credit and sharp reduction in investments in the country. The steel industry awaits publication of the decree establishing the 0.5% cap for the environmental compensation.

Brazilian steelmakers meet with President Lula to discuss the crisis

In January, the Board of Directors of the IBS met with President Luiz Inácio Lula da Silva in January, to discuss the sector's situation and perspectives before the world crisis and its impacts for the country. The Board Members emphasized that the domestic market is Brazil's main differential compared to most of the larger economies, many of which already facing recession. In order to preserve the domestic market, it is necessary to provide incentive measures for investments and consumption, besides stronger support against unfair competition.



André Gerdau Johannpeter,
President of the IBS

André Johannpeter, President of the IBS, said that the Brazilian steel industry recognizes the Government's efforts in tackling the effects of the world crisis through several initiatives aiming at supporting the liquidity of the financial market, tax relieves for some sectors, besides other measures, all attempting to provide the banking system, particularly BB, CEF and BNDES with more resources and better conditions to finance investments and operations in important sectors of the economy. However, he added that the sector deems necessary a further cut in interest rates and tax relief for investments, consumption and exportations, and a substantial improvement in mechanisms for receipt and/or compensation of tax credits.

The Chief Minister of Staff, Dilma Rousseff, the Minister of Mines and Energy, Edson Lobão, the interim Minister of Development, Industry and Commerce, Ivan Ramalho, as well as IBS Board members Jorge Gerdau (Gerdau), Isaac Popoutchi (CSN), Albano Chagas Vieira (Votorantim Siderurgia), José Armando de Figueiredo Campos (ArcelorMittal Brasil), Marco Antônio Castello Branco (Usiminas/Cosipa) and Paulo Roberto Magalhães (ArcelorMittal Inox Brasil).

The IBS has been taking part of the meetings of the Government's Crisis Follow-up Group (GAC), aiming at assisting in the proposition of measures against the crisis, together with other class-representative entities (ABIMAQ, ABDIB, ANAMACO, ANFAVEA and CBIC).

SBB Steel Markets Europe 2009

Date: 03 - 04/06/2009
Location: Düsseldorf (Germany)
Information: www.steelbb.com/steelevents/germany

15th World Steel Conference

Date: 19 - 21/04/2009
Location: Vienna (Austria)
Information: www.worldsteelconference.com

Construfair

Date: 18 - 21/06/2009
Location: Caxias do Sul, RS (Brazil)
Information: www.construfair.com.br

Modeling, Simulating and Optimizing Steelmaking Processes

Date: 31/03 - 02/04/2009
Location: ABM, São Paulo (Brazil)
Information: http://www.abmbrasil.com.br/cursos/cursos_detalhes.asp?cursos_Cod_Curso=1439

Statistics

Brazil's crude steel output in January, 2009, was 1.6 Mt, down 1.8% from December, 2008. In the case of hot-rolled products, the January output was of 1.0 Mt, 9.9% up from the previous month. This increase occurred due to some companies resuming production after partial suspension of activities in December.

Domestic sales in the same month reached 950 thousand t, 1.7% up from December, 2008. When compared to January, 2008, there was a decrease of 48.4%.

Exportations of steel products in January, 2009 reached 438

thousand t, generating revenue of US\$ 404 million. The exported volume was 24.1% higher than December, 2008, while revenue increased 3.6%. Compared to January, 2008, the exported volume fell by 56.7%. Importations totaled 252 thousand t (US\$ 354 million) in the first month of the year.

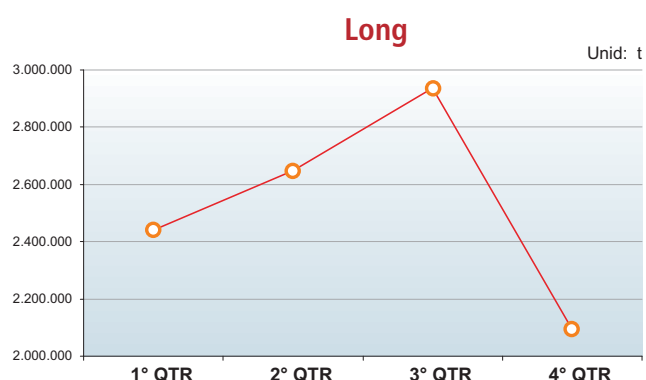
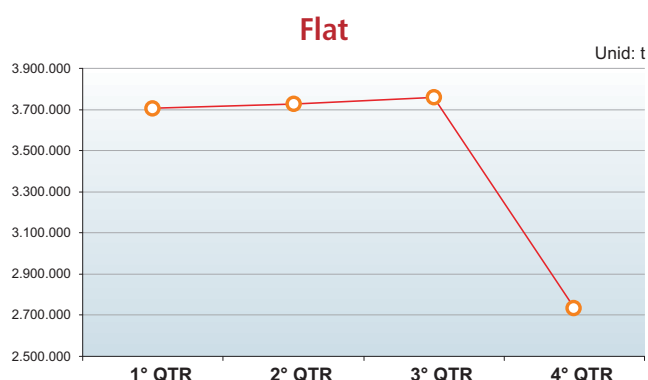
The Brazilian apparent consumption of steel products in January was of 1.2 Mt, 8.1% higher than in December, 2008. Consumption of flat products was of 673 thousand t, while long products accounted for 517 thousand t, respectively 8.4% and 7.7% up from December.

Brazilian Steel Industry - Synthesis (*)

Unit: 10³ t

Specification	December		08/07 %	Jan/Dec		08/07 %
	2008	2007		2008	2007	
PRODUCTION						
Crude Steel	1.649	3.010	(45,2)	33.716	33.782	(0,2)
Hot-Rolled Products	929	2.221	(58,2)	24.693	25.850	(4,5)
Flat	607	1.354	(55,2)	14.332	15.691	(8,7)
Long	322	867	(62,9)	10.361	10.159	2,0
Semi-finished for sale	159	588	(73,0)	6.077	5.822	4,4
DOMESTIC SALES (*)						
Semi-Finished for sale	19	47	(59,6)	691	626	10,4
Flat	489	1.003	(51,2)	12.137	12.151	(0,1)
Long	426	639	(33,3)	8.965	7.773	15,3
FOREIGN TRADE						
Exportations (10 ³ t)	353	723	(51,2)	9.180	10.427	(12,0)
(US\$ Million)	390	465	(16,1)	8.048	6.717	19,8
Semi-Finished	195	374	(47,9)	5.665	5.099	11,1
Flat	110	228	(51,8)	1.953	3.166	(38,3)
Long	48	121	(60,3)	1.562	2.162	(27,8)
Importations (10 ³ t)	192	135	42,2	2.656	1.634	62,5
(US\$ Million)	275	190	44,7	3.967	1.973	87,4
Semi-Finished	22	2	1.000,0	150	53	183,0
Flat	123	90	36,7	1.677	1.045	60,5
Long	47	43	9,3	829	536	54,7
Apparent Consumption (**)						
Flat	1.101	1.819	(39,5)	24.048	22.060	9,0
Long	621	1.112	(44,2)	13.931	13.390	4,0
Long	480	707	(32,1)	10.117	8.670	16,7

Apparent Consumption - 2008 (**)



(*) Excludes sales within the industrial park

(**) Domestic sales + importations, excluding sales within the industrial park and importations by steel mills for transformation.