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Steel Industry Offers Poor Forecast for 1994

by LADB Staff

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According to the National Steel and Iron Industry Chamber (Camara Nacional de la Industria del Hierro y del Acero, Canacero), the Mexican steel sector is facing poor prospects for 1994 due to low world prices and global oversupply.

Dumping concerns

In a press conference in late February, Canacero president Alonso Ancira Elizondo said the Mexican steel sector incurred a trade deficit in 1993 because exports of 8.6 million MT were not sufficient to match imports of 12 million MT. However, he said the deficit by itself was not as significant to the industry as were low prices on the world market. He said that the low prices have increased the potential for imports to be sold in Mexico at less-than-fair market value. Ancira said the problem of global oversupply has been compounded by the need by former Communist-bloc countries in eastern Europe to increase production and exports in order to earn foreign exchange.

Nevertheless, Canacero has not yet filed any dumping complaints with the Trade Secretariat (Secretaria de Comercio y Fomento Industrial, SECOFI) against any of these countries. Instead, such complaints have been filed against long-time competitors in the steel industry, such as Venezuela, Brazil, the Netherlands, Belgium, and the US. According to Ancira, SECOFI is due to issue rulings on a number of dumping complaints by the end of March. Meanwhile, in early March, Canacero and the federal government announced a program designed to train customs personnel to better identify cases where foreign steel products are potentially being sold in Mexico at below-market prices.

Canacero has complained that because of cumbersome import regulations, steel products sometimes are not charged the appropriate duties. President Carlos Salinas de Gortari's administration and Canacero are also taking steps to boost steel exports. In early March, Canacero and the government's Foreign Trade Bank (Banco Nacional de Comercio Exterior, Bancomext) announced that US\$500 million will be made available to steel companies during 1994 to support export and production activities. Over the past year, Mexico has had some success in boosting steel exports, especially to the US. In mid-February, the American Iron and Steel Institute reported that Mexican companies exported 846,000 metric tons of steel to the US during 1993, an increase of 100% from 1992. According to the report, most of the increased exports involved semi-finished products for the construction industry.

Results mixed for individual companies

Despite the overall increase in exports, financial results were mixed for individual companies. For example, on Feb. 23, business conglomerate Grupo Alfa, whose principal ventures are in the steel industry, reported net earnings for 1993 at US\$68 million, a decline of 12% from 1992. Net sales totaled US\$2.57 billion, down 4.8% from 1992. In its annual report, Alfa attributed the poor economic performance to Mexico's slow GDP growth, high interest rates, an increase in the value of the peso relative to the dollar, and the importation of steel products at below-market value. On the other

hand, Altos Hornos de Mexico (AHMSA), reported surprisingly high net earnings of US\$4.5 million during 1993, 20% above projections for the year.

The company said earnings increased despite a slight decline in production to 2.584 million MT. In contrast, the company reported losses of US\$241 million in 1991 and US\$2.9 million in 1992. AHMSA has projected net earnings of US\$29 million for 1994. Despite the generally sluggish economic results last year, Mexico City financial services company Inverlat reported that Mexico's largest steel companies plan to invest about US\$1.13 billion on diverse modernization and expansion projects through 1999, in order to meet an expected increase in demand. The Inverlat report said the companies that plan to expand capacity include AHMSA, Grupo Alfa, Simec, Industrias Campos Hermanos, and Tubos de Acero Mexicanos (TAMSA).

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