

4-14-1999

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LADB Staff

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Recommended Citation

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Mexican Steel Production Expected to Increase Slightly in 1999

by LADB Staff

Category/Department: Mexico

Published: 1999-04-14

The Camara Nacional de las Industria del Hierro y del Acero (CANACERO) has forecast a slight increase in steel production this year after remaining flat in 1998. In a report released in late March, CANACERO projected steel production at 15 million metric tons in 1999, an increase of about 6% from last year. CANACERO executive director Jose Antonio Gomez

Urquiza said Mexican steel manufacturers have planned the increased production to meet expected growth in exports. He said an increase in global demand for steel will coincide with improved prospects for the world economy. "The signs of recovery are already apparent," Gomez Urquiza said. "The global crisis had a major impact on our industry last year."

The global financial crisis caused Mexico's steel production to stagnate at about 14.2 million MT last year, only marginally higher than the 1997 output. A slowdown in domestic and international sales contributed to liquidity problems last year for Mexico's largest steel manufacturer Altos Hornos de Mexico (AHMSA). AHMSA accounted for more than one-fourth of Mexico's steel production last year.

The second-largest producer, Hylsamex, was responsible for about 20% of the country's total steel output. The slowdown in the Mexican steel sector last year was part of a global trend. World steel production totaled 775.3 million MT, a decline of about 3% from 1997, according to the Instituto Latinoamericano del Hierro y el Acero (ILAFA). Mexico is the second-largest steel producer in Latin America, surpassed only by Brazil, which last year reported an output of 25.7 million MT. Mexico ranks sixteenth among steel producers globally.

The CANACERO projections were formulated before a recent recovery in the value of the Mexican peso, which could limit export demand somewhat this year. The Mexican currency was reported at 9.51 pesos per US\$1.00 on April 14, compared with about 9.90 pesos per US\$1.00 in mid-December 1998. Another factor affecting Mexican steel producers is the uncertain global oil market. While the price of crude oil recovered significantly in the first half of April, some industry analysts suggest the market could weaken again because global supplies are still large.

A weak global oil market could especially hurt Mexico's third-largest producer TAMSA. The company, which specializes in production of tubes and pipes, was forced to suspend production for almost two weeks at the end of March because of slow demand.

Growth in auto-parts sector to boost domestic demand

Demand for steel products is expected to increase steadily in the domestic market, particularly with the recent growth in the auto-parts industry. Seven auto-parts manufacturers General Motors Corp.,

DaimlerChrysler AG, Grupo Desc, Grupo Alfa, Vitro, Grupo Industrial Saltillo, and San Luis Corp. are planning to invest about US\$10 billion in 1999 and 2000 to expand their Mexico operations.

Some companies like Grupo Industrial Saltillo's subsidiary Cifunsa make extensive use of steel and aluminum to produce engine blocks. But the Mexican steel sector is also expected to face increased competition from foreign producers on the domestic market. In late January, AHMSA and Hylsamex asked the Secretaria de Comercio y Fomento Industrial (SECOFI) to launch an anti-dumping investigation against imports of rolled steel from Russia and the Ukraine. In their complaint, AHMSA and Hylsamex said Russian and Ukrainian steel imports are priced at 50% below domestic market prices.

Mexican steel producers are also concerned about possible unfair competition from steel products originating in the European Union (EU). The Coordinadora de Organizaciones Empresariales de Comercio Exterior (COECE) has asked President Ernesto Zedillo's administration to ensure that the text of a free-trade agreement currently under negotiation with the EU contains adequate protections for the Mexican steel sector.

In its preliminary proposal, the EU has asked Mexico to eliminate import barriers for steel imports from EU countries by 2003. Mexican steel manufactures, however, are pushing for the phaseout of tariffs to extend over a 10-year period. "If we were to open our borders tomorrow, we would be overwhelmed with imports of European steel that are subsidized by about 10% to 15%," said COECE representative Arcadio Herrera in an interview with the daily business newspaper *El Economista*. (Sources: *Novedades*, 01/22/99; *Reuters*, 03/25/99; *El Universal*, 03/28/99; *Associated Press-Dow Jones news service*, 03/28/99, 03/30/99, 04/04/99; *Excelsior*, 02/11/99, 03/29/99, 03/31/99, 04/05/99; *El Economista*, 01/21/99, 01/22/99, 03/26/99, 04/05/99, 04/09/99)

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