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LADB Staff

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Mexico-E.U. Trade Accord And Improved Global Prices Expected To Boost Mexican Steel Sector In 2000

by LADB Staff
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The Mexican steel industry is expected to begin a long-term recovery this year with the completion of a free-trade agreement with the European Union (EU) and a recovery in global steel prices. The EU-Mexico accord signed by President Ernesto Zedillo and European Commission President Romano Prodi in late March is expected to attract fresh capital to the ailing Mexican steel industry and to open the lucrative European market to Mexican products. The accord is scheduled to take effect July 1, 2000. Jose Gomez Urquiza, director of the Camara Nacional de la Industria del Hierro y del Acero (CANACERO), said the agreement would create opportunities for Mexican companies to begin producing more specialty steel products, including parts for the motor-vehicle industry. These products, which will be allowed to enter the EU at reduced tariff rates, generally sell at higher prices than other steel-based items. The increased production of specialty steels for the EU automotive industry will also open up opportunities to sell these products to Mexican and US manufacturers. One potential customer is Mexico's Grupo Sanluis, which currently imports high-quality steel from the US and Canada to produce brakes and suspensions for sale to General Motors, DaimlerChrysler, Ford, and Nissan. "The Mexican steel industry is a very limited provider to the automotive industry," Gomez Urquiza told Reuters. "This is a great opportunity to increase the market share the Mexican steel industry has in the automotive industry."

Spain's Aceralia takes initial steps to acquire AHMSA

The EU accord is also expected to attract fresh capital into the Mexican steel sector, including the potential merger of Spain's Aceralia Corporacion Siderurgica with Mexican steel giant Grupo AHMSA. The merger, which still needs approval from Aceralia's board of directors, would create the world's third-largest steel manufacturer. From AHMSA's standpoint, the merger would provide the company with needed funds to restructure its debt. Sluggish sales forced AHMSA to default on several loan payments last year (see SourceMex, May 5, 1999, June 9, 1999). As part of the merger proposal, Aceralia has submitted a plan to restructure AHMSA debts and promote new investments. As of late March, the merger was still pending approval from Aceralia's board of directors, who were waiting for Mexico's Secretaria de Hacienda y Credito Publico (SHCP) to clear up some tax questions. Aceralia's board was also awaiting answers to some questions posed to AHMSA's creditor banks. AHMSA's decision to merge with Aceralia came after a potential merger with Mexican steel manufacturer Grupo IMSA fell through after eight months of negotiations. The merger failed because of the inability of the two sides to agree on a restructuring plan for AHMSA's US$2.4 billion debt (see SourceMex, October 27, 1999, February 9, 2000). The failure to complete the merger opened the opportunity for AHMSA to seek partnerships with investors from the EU and other regions.

In addition to Aceralia, AHMSA attracted interest from Italian steel companies Riva Group and ILVA Laminati Piani, and Germany's steel giant Thyssen Krupp. Companies from outside the
EU also expressed interest in AHMSA, including Posco of South Korea, Essar Steel of India, and Kawasaki Steel of Japan. Meanwhile, industry sources expect the export market to continue to provide opportunities for Mexican steel this year. Companies like Grupo Hylsamex are expected to remain strong participants in the global economy. Hylsamex recently completed agreements to develop various steel projects in Brazil, Chile, Peru, Russia, Myanmar, Malaysia, and Australia, which could bring the company revenues of between US$35 million and US$40 million this year, said Raul Quintero, the company’s director of technology. CANACERO has not offered specific projections for the year, but chamber president Alejandro Elizondo Barragan said the industry would fare much better than in 1999, when exports declined by 11%. He said the slight recovery in 2000 would be spurred by higher global prices and generalized growth in the world economy. Elizondo said prospects were also good for domestic sales because of the strong performance of the Mexican economy. He projected an increase of 6% in domestic demand, which would help the industry boost production. CANACERO statistics show Mexico produced 15.3 million metric tons of liquid steel in 1999, an increase of 7.9% from the previous year. In contrast, steel production totaled only about 14.2 million MT in 1998, almost unchanged from 1997 (see SourceMex, February 17, 1999). [Sources: Novedades, 02/23/00, 02/24/00; The Dallas Morning News, 02/25/00; El Universal, 02/24/00, 02/25/00, 03/17/00; Reuters, 01/31/00, 02/15/00, 02/21-24/00, 02/29/00, 03/16/00, 03/20/00, 03/24/00; Reforma, 02/22-25/00; El Financiero, 02/22-25/00, 03/23/00, 03/27/00; El Economista, 02/22/00, 02/23-25/00, 02/28/00, 03/14/00, 03/16/00, 03/17/00, 03/24/00, 03/28/00]

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