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The global financial crisis is having a deep impact on the construction sector and related industries, including cement manufacturers like Mexico's giant CEMEX. CEMEX, the world's third-largest cement producer, has seen its earnings fall sharply because of a crisis in the credit markets, which has tightened demand for housing and severely slowed down construction. While the company struggles with financial matters, it also has to comply with environmental regulations. In January of this year, CEMEX was forced to pay a huge fine in the US because of emissions violations at a plant in California.

The crisis in the housing market has greatly reduced the pace of construction and caused a drop in demand for cement around the globe. In a recent report, CEMEX projected demand to decline by as much as 15% in the US, 5% in Mexico, 20% in Spain, and 16% in Britain. The company, which reported losses of US$707 million in the fourth quarter of 2008, is especially concerned about North America and the weakness in the US economy, which has had a severe impact on Mexico (SourceMex, October 01, 2008, December 03, 2008, and February 11, 2009).

As a result of the economic downturn and reduced demand, CEMEX was forced to trim operations by shutting down 27 kilns, 300 ready-mix concrete plants, and 50 aggregate sites. The cost-cutting plan of about US$700 million resulted in the layoff of 7,500 employees in 2008, one-tenth of the company's global work force. Even though the economic downturn was apparent by the middle of 2008, the company was surprised at "the speed at which the US economy and then the rest of our markets deteriorated last year," CEMEX chief executive officer Lorenzo Zambrano said in early February. "The economic news is going to get worse before it gets better." Company sees poor prospects in 2009 The company does not see good prospects in 2009, despite commitment by governments in the US, Mexico, and other countries where the company has operations to develop economic-stimulus plans that include massive expenditures on infrastructure.

The company forecast its operating cash flow in 2009 to decline by as much as 19% or 20% from 2008 because of a slow construction sector worldwide. "The ambitious infrastructure plans announced by several countries, including the US, might not stimulate economic growth or produce the expected results because of delays in implementation or bureaucratic matters," CEMEX said in a news release. Regarding its home country, the company said, "We cannot be certain that Mexico will not experience a more pronounced economic contraction. This could result in a worse prospect for the construction sector, which would have a negative impact on demand for cement and concrete." CEMEX's competitors are also skeptical that government infrastructure projects will result in an immediate boost in economic activity. "We will have another difficult year in 2009," said Holcim, the world's second-largest manufacturer, in early March. "Even though several governments have announced economic-stimulus programs, we are still anticipating a decline in demand." But CEMEX officials are confident that the company will be stronger after the crisis is over. "We plan to do much

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more than just survive," said Zambrano. "We expect to emerge from the present crisis ready for the next chapter of CEMEX's long-running growth story." Zambrano said the company's financial position could see some improvement this year.

Among other things, CEMEX expects to lower net debt to US$14.3 billion in 2009, compared with about US$17.9 billion at the end of 2008. CEMEX officials project that the company will raise between US$1.7 billion and US$1.9 billion from the sales of some of its assets this year. The company's negative financial position is not entirely the result of the economy. In March, CEMEX reported the value of its stock had declined by almost 72% in less than two years, partly because of its debt situation. "This decline is because of an increase in debt and a decline in sales of the cement company, which increased the risk for its stocks," analyst Patricio Rivera told the Mexico City daily newspaper Excelsior. The company's debt problems are tied in part to the purchase of Australia's Rinker Group in 2007 (SourceMex, April 18, 2007), which caused the company's debt to skyrocket. "The appetite for CEMEX shares declined because the company's risk increased," said analyst Carlos Hermosillo of Vector Casa de Bolsa in Mexico City. But Hermosillo pointed out that CEMEX is not in danger of defaulting on its investors. Even though the global crisis is "beyond the control of the company," said the analyst, CEMEX can take steps such as reducing its debt and continuing with its programs to optimize the operation. CEMEX settles pollution complaint in California In addition to the global economic situation, CEMEX has had to address environmental concerns.

In January of this year, its US subsidiary CEMEX California reached an agreement with the US Department of Justice (DOJ) to pay a US$2 million fine and replace some of its highly polluting equipment. The company was the target of a lawsuit by the US Environmental Protection Agency (EPA) and the DOJ's office in Los Angeles for violating the Clean Air Act at its plant in Victorville, California. The lawsuit claims that CEMEX California made some modifications to its equipment in Victorville between 1997 and 2000 that resulted in a large increase in emissions of nitrogen oxide, a substance that causes respiratory ailments, particularly among the very young and the very old. In an out-of-court settlement with the EPA and the DOJ, CEMEX agreed to install more environmentally friendly equipment and pay the applicable fine. "[This settlement] will result in cleaner air for California," said EPA regional director Barbara Jordan.

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