



Global Forum on Steel Excess Capacity

LESSONS LEARNED FROM THE BRAZILIAN PRIVATIZATION EXPERIENCE

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BRAZILIAN STEEL INDUSTRY'S PHASES

- **1925-1945:**
 - Only private-owned companies, including an Arbed's subsidiary
 - Focus on long steels
- **1945-1990:**
 - Establishment of State-Owned Enterprises (SOEs) for large steelworks
 - Beginning of flat steels and some exported-oriented steelworks
 - Strong governmental interference on prices (due to the high inflation issue) and investments
 - Governmental expansion plans usually based on highly optimist assumptions, in particular in the 1970s

BRAZILIAN STEEL INDUSTRY'S PHASES

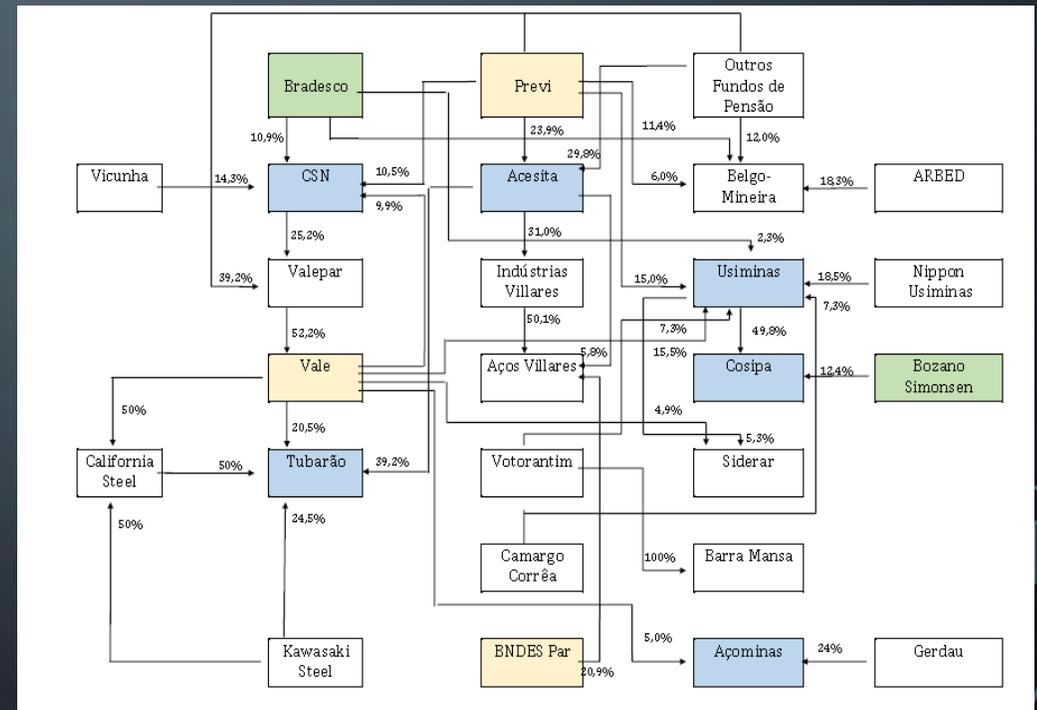
■ 1991-....:

- **Privatization of the Big Six Companies: Usiminas, Tubarão, Acesita, CSN, Cosipa and Açominas (1991-1993)**
- **The privatized companies quickly benefited from previous financial restructuring and the ending of price control**
- **In addition, they were allowed to move into distribution**
- **The investment improved very fast due to a combination of better international and domestic prices, less bureaucracy, a strong reduction of headcount (30% in some companies) and a set of good projects that were repressed**

PRIVATIZATION SHOULD BE UNDERSTOOD AS THE BEGINNING OF TRANSFORMATION

- Despite its initial positive impacts, a extremely complex ownership structure was generated as a result of the privatization auctions
- Besides, the Federal government has maintained some shares in the steel companies via BNDES, some public pension funds (Previ) and Vale (which was only privatized in 1997)
- There were 20 ownership changes in the period 1993-2002

Ownership structure of the Brazilian Steel Industry in 1998 (% voting shares)



Blue = Big Six

Green = banks

Yellow = State's direct and indirect

WHAT HAPPENED AFTERWARDS

- **Despite the fact that Brazilian economy has been highly unstable, in terms of GDP growth and exchange rate, there have been some positive gains for the steel industry since 1993**
- **Privatized companies' modernization and expansion:**
 - **Expansion of nominal capacity and higher diffusion of continuous caster**
 - **Enhancement of product mix (semis into rolled products and new HDG lines)**
 - **Product diversifications (CSN into longs and Gerdau Açominas into flats)**
- **New greenfield mills were erected:**
 - **Semis: Thyssenkrupp CSA (now Ternium Brasil) and Pecém**
 - **Longs: Sinobras, Silat, GV do Brasil/Simec and AVB/Ferroeste**
 - **Seamless tubes: VSB**

RESTRUCTURINGS

- **Gerdau has interrupted the Usiba and Guaíra steelworks, aiming to generating large utilization of capacity of the remaining steel mills**
- **Vallourec decided to focus the pig iron and steel production on just one mill**
- **More importantly, Usiminas' Cubatão steelworks (former Cosipa) has experienced the largest restructuring:**
 - **One blast furnace and its only plate mill were shut down in 2015**
 - **Additional blast furnace, sintering plant, coke oven, steel shop and the oldest HSM in 2016. Since then, it has been operating as re-roller**
 - **Some 4,000 direct and indirect jobs were lost**
 - **In 2016, the shareholders made a US\$ 280 M capital injection due to its critical financial situation**
- **The Federal government did not take part in any of such restructurings**

SOME FINDINGS

- Privatization was a catalyst to solve historical problems faced by the sector (price control and large debts)
- Although the initial gains were quite considerable, some outcomes were achieved only at medium and long terms
- Despite the considerable number of ownership transactions, which in many cases resulted in consolidation, there were new entrants in the sector and product diversifications
- The recent restructurings have been conducting without any participation of the Federal Government. Furthermore, there was not any attempt to renationalize (even partially) or to provide specific financial assistance to the steel companies

Thank so much indeed for you attention!

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