NAFTA NEEDS OECD HELP FOR GROWTH TO CONTINUE

BY PHILIP BURGERT

■ MONTERREY — Mexico has benefited greatly from its position as one of the three nations in the North American Free Trade Agreement (Nafta) zone, but in order for growth to continue, it and its two trading partners need help from another important group.

The OECD, which met two weeks ago in Paris, must continue its efforts toward establishing a multilateral steel subsidy agreement, one that would eliminate government subsidies to steel companies except in special cases. Such an agreement is unlikely any time soon, however.

"The Nafta countries have been very supportive of strict disciplines on steel subsidies," said Michael Robertson, deputy director of the Trade Remedies Division of International Trade Canada. "The results of the OECD meeting were mixed at best. There is support for a multilateral steel subsidy agreement, but I think an agreement itself is unlikely."

Robertson made his comments during a panel discussion as part of *American Metal Markets*' Mexican Steel 2005 conference in Monterrey, Mexico. He told the nearly 300 delegates in attendance that while the Nafta nations support such an agreement, similar support from other countries has not been forthcoming, and nothing that happened during the meetings in Paris appeared to signal any change.

"The continued strength of the global steel market does not bode well for these discussions," Robertson said. "When you are not in a crisis, [many people] do not want to resolve these issues."

Tom Danjczek, president of the Steel Manufacturers Association in Washington, pointed out that US steel shipments increased more than 16 million tonnes in 2004 compared with 2003 and imports to the US increased by 9.5 million tonnes. Those increases came, he said, during a four-year time period that has seen US steel companies reduce their overall capacity by 15 million tonnes.

"That begs the question, so what?" Danjczek said. "The issue, I think, is not so much what will happen in 2005-06 as it is what will other countries do to get rid of excess capacity? What will happen going forward?"

Danjczek also questioned where the global steel market will be when China, which consumed massive amounts of steel and raw materials in 2004, reverts to being an exporter of steel products rather than an importer.

Mexican mills say they are open to consolidation

■ MONTERREY — Executives of three Mexican steel producers said they are open to the possibility of participating in the global consolidation of steel capacity and are expecting to take part in that trend at some future date.

"I think it would be difficult to keep Mexico away from consolidation," Israel Gutiérrez, Monterrey-based director of strategic planning for Grupo Villacero, told participants in *AMM*'s Mexican Steel 2005 conference in Monterrey, Mexico.

"I think Mexico would be sooner or later a participant in these economies," he said "It's a matter of looking at specific situation." Among the advantages resulting from steel industry consolidation, he said, would be more orderly world markets and the possibility of higher product prices.

He and executives of two other mills cited no pending talks on mergers during a panel discussion of Mexican mill opportunities and challenges. This opinion was echoed by Jorge Vazquez Costilla, founder and president of Monterrey-based Harbor Intelligence, a consulting firm specialising in analysis, strategy and intelligence services in economics, finance and steel and nonferrous metals, who had said earlier that consolidation among the mills did not appear imminent.

Bullish Mexican steel buyers set goals to stay competitive

■ MONTERREY — Buyers of steel in Mexico are approaching the current strong market for steel products from a variety of perspectives, but with one common goal: to keep themselves as competitive as possible while helping their customers to meet their own competitive goals.

"Our strategy is to make money," said Carlos Rodriguez Borjas, general director of Acero Prime S de RL de CV, a service centre operation based in Mexico. "But we also want to make our customers competitive. We do that through supply chain optimisation — from the ports to the transportation to processing steel and bundling it in packaging."

Rodriguez, speaking as part of a panel discussion at *AMM*'s Mexican Steel Conference 2005, said that while good times in steel should continue for at least the short term, the implications for the future for service centres is uncertain.

Even though the International Iron and Steel Institute estimates world steel consumption will grow 5 percent in 2005 compared with last year, the potential that China will revert to an exporter of steel rather than an importer poses a threat to the world market.