Betting heavily on pre-salt oil



Marco Antonio Castello Branco

Usiminas CEO

Klaus Kleber, from São Paulo

The Usiminas steelmaker group works earnestly to promote use of steel in the building industry and has recently signed a contract with the My House, My Life program for construction of 43 residential buildings in steel in Volta Redonda (Rio de Janeiro state), targeted to families earning from zero to three times the minimum wage. "We have initiated negotiations with other municipalities for similar projects," Usinimas CEO Marco Antonio Castello Branco adds. The international crisis suppressed the group's exports, the fall of which was not offset by increased domestic demand, but the group sustained its strategic investments. "We are investing in technology to meet the needs of the shipping industry and of the pre-salt oil field exploration with the fast plate cooling unit at the Ipatinga mill (Minas Gerais state), which should be operational before the end of the year," the CEO explains. "The technology comes from Nippon Steel, and ours will be the only steelworks outside Japan to use this process, which will enable us to produce more resistant steels."

***The Brazilian Economy* — You have been CEO of the Usiminas group since July 2008. What have been the main objectives of your management?**

Marco Antônio Castello Branco — The principal focus, for me and for the entire Usiminas management, is to make the group more competitive. For this we are developing a new corporate culture with guidelines based on increasing professionalization of management, meritocracy and autonomy of employees, and transparency of processes and relationships. At the same time, Usiminas has been restructured into four units: mining and logistics, steelworks, steel processing, and capital goods, which have begun to operate in an integrated manner so that we can increase the supply of products and services that have higher added value.

Usiminas is known for encouraging the contribution of workers at all levels to improving operations and increasing productivity. How does that work?

We value the participation of employees throughout the company. We gave workers outside upper management more autonomy, which we consider essential to this process of change. We have implemented several projects

to give voice to the employees, and we have obtained very clear benefits from such participation. In the first three quarters of 2009 alone, the Productivity and Action program has allowed us to reduce costs by US$246 million by applying employee suggestions. Eventually that figure could be as high as US$778 million.

The Development Program Usiminas announced in early 2008 included investments totaling US$9 billion to expand production to 6.5 million tons of steel. How is that program progressing? Have there been changes in view of the international scenario?

The financial crisis severely affected the steel market; international demand plunged. The Usiminas Management Board therefore deemed it necessary to postpone construction of a new plant that was projected for Santana do Paraíso (Minas Gerais state) that will have a production capacity of 5 million tons of steel a year. The project has only been suspended and should be reassessed this year.

What are the recent developments at Usiminas, particularly concerning the introduction of new technology?

Although the expansion of production capacity has been postponed, we continue to make strategic investments aimed at adding value. In 2011 Usiminas will open a new hot strip line at the old Cosipa steelworks in Cubatão (São Paulo state), a US$1.4 billion project, and a new galvanization line at the Ipatinga plant costing nearly US$556 million. We have also been investing in technology to meet the needs of the naval industry and pre-salt oil field exploration; the fast plate cooling unit at the Ipatinga mill (Minas Gerais state) should be operational before the end of the year. The technology comes from Nippon Steel, and ours will be the only steelworks outside Japan to use this process, which will allow us to produce more resistant steels.

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What is happening in the system of partnerships with industry, such as the automotive industry, through Usiminas Mecânica S.A. (Usimec) and other holding companies?

Through Automotiva Usiminas, Usiminas supplies the automotive industry with both rolled steel and more elaborated products such as stamped pieces and complete cabins. This is a key segment of our activity and we have developed a very close relationship. In addition to Automotiva Usiminas, we have other companies geared to specific segments, such as Usiminas Mecânica, which is dedicated to the oil and gas industry and is building a plant for offshore platform modules exclusively to meet the demand arising from exploitation of the pre-salt oil field.

What changes have been introduced to the steel distribution system?

At the end of last year we created Soluções Usiminas branch, which will be active in steel distribution and processing. It will be able to meet smaller demands faster than the steel mill. It will also supply blanks to the automotive industry, expanding the group's partnership with that sector.

Industry, the segment most severely affected by the international crisis, has been recovering gradually, reaching levels close to those before the crisis, according to the National

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Confederation of Industry (CNI). Has domestic demand for steel products, stimulated by the tax exemptions on automobiles, construction, and durable goods, offset the decrease in exports?

The incentives to consumption were vital to maintaining domestic market demand and cushioning the impact of the international crisis on the country's economy. But even though the behavior of the domestic economy has been better than that of the international economy, demand for steel fell on both fronts. According to the Brazilian Steel Institute (IAB), domestic steel sales fell by 25% in 2009 compared with 2008. Thus, domestic demand has not been able to offset the decline in exports.

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What initiatives has Usiminas taken to promote greater use of steel in the building industry?

Using steel in building is a cultural issue, because from a technical point of view steel offers advantages such as higher speed in project completion. Yet even in engineering colleges, technical training on the use of steel in residential construction is overlooked, resulting in graduates without this know-how and culture. There is a notion that steel renders housing projects unviable, and that it should be used exclusively in industrial structures. In that sense, Usiminas has been developing steel structures in projects dedicated to construction of social housing that attest to the feasibility of the metallic structures in several building types. Furthermore, we have solutions in steel for stadiums and infrastructure projects for the 2014 soccer World Cup.

Is Usiminas participating in the My House, My Life program launched by the federal government?

The My House, My Life program is an excellent opportunity to open an important market and to show the potential of steel in construction. We have agreed to build the first apartment buildings in steel within the program in Volta Redonda, Rio de Janeiro state. Those units will be directed to low-income households. The total of 688 apartments is divided into 43 buildings, each with 16 units. We are already negotiating similar projects within the program with other municipalities. We can deliver a finished building: in addition to structural beams, profiles, and columns, the building is enclosed with thermally-coated steel walls.

The difficulties caused by the overvalued exchange rate for Brazilian exports, particularly industrialized products, are well known. Do you believe a recovery of exports of higher-value-added products is possible?

The overvalued currency is a reality that exporting businesses will have to learn to live with. When the national currency is expensive, the difficulties of competing in the global market increase exponentially, particularly for commodities. One way of averting direct price competition with countries of devalued currencies is to add value. Usiminas has been investing heavily in increasing the supply of higher-value-added products, concentrating on finished products produced by Usinimas Mecânica. According to our plans, between 2014 and 2015 added-value products should

account for 50% of our total sales, both domestic and foreign. Today, they account for 22%.

What were the volume and value of Usiminas exports in 2009, and what are the projections for the current year?

The figures for 2009 have not yet been finalized, but through the third quarter of last year exports reached US$740 million. That accounts for about 17% of our net revenues for the period. The expectation is that in 2010 the international market will improve. We already saw a strong reaction in China in late 2009, which indicates that demand from China and other emerging countries will pick up rapidly in 2010. Developed countries will move more slowly but will also recover.

IAB has revealed that the overvalued currency also makes importing some products more attractive, including low-quality steel, such as steel bars from Turkey. What do you have to say about that?

Importing products is a normal and healthy practice in an economy, but today the inflow of foreign steel is a major problem for domestic steelworks. Imports motivated by macroeconomic distortions constitute a risk. Price conditions in other countries, such as China, are better because production costs are lower. There are government subsidies, labor-related costs are insignificant, and the requirements of financial return are infinitely lower.

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To give you an idea, business margins in China are about 1.4%. Margins like that would make any company in Brazil file for bankruptcy within a month. This entire scenario makes it even more difficult to be competitive when the exchange rate is somewhat distorted.

In a recent interview, Pascal Lamy, Director-General of the World Trade Organization, predicted that protectionism in developed countries would remain highly sensitive over the next few years because of their high unemployment rates. How has that affected Usiminas' sales abroad, and what are your views on the issue?

So far, this shift in the world economy has had little effect on Usiminas. Today, the major developed countries' barriers are against steel from Asia, which has distorted competitive conditions. However, the trend is for barriers of all types to increase, and for world trade to suffer a period of rising protectionism. Although it is a natural reaction in times of economic turbulence, it is still worrying. This type of protectionism affects the developing countries directly because they are the first to recover from the crisis and may show a sharp economic turnaround before the developed countries lift their trade barriers. This may end up slowing the growth rate of the developing countries, and consequently affecting the growth of the entire global economy.

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Infrastructure deficiencies have been major stumbling blocks to Brazilian exports. How can Usiminas overcome them?

One of Usiminas's strategic objectives is to vertically integrate our production, particularly by investments in the areas of logistics and infrastructure. We have shares in railways and in a port terminal in the state of Espírito Santo. The plan in the next few years is to build our own port close to Sepetiba Bay in Rio de Janeiro state.

An appreciated currency gives Brazilian multinational companies opportunities to expand their presence abroad, as some large Brazilian companies have done. Has Usiminas been expanding its presence abroad?

It is a sensitive moment to expand internationally. Usiminas has concentrated on domestic investment to consolidate its position and add value to its products. Internationalization has not been excluded, but we seek a more favorable moment, especially in terms of world steel demand, before we begin to move more forcefully in that direction.

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What share of investment does Usiminas earmark for research and development?

This is a central area for Usiminas, because innovation is crucial to develop new markets that demand products with higher added value. In 2008 the Directorate for Research and Innovation was created to focus all our initiatives in that area. We have been able to keep the budget for it unchanged even at the peak of the crisis: US$11 million in 2008, plus R$11 million in 2009. The forecast for 2010 is US$14 million in investment, a 30% increase.

Usiminas is also a mining company. Is the iron ore extracted directed only to your plants? Or do you sell part of it to third parties or export it because of favorable prices in the global market?

The ore currently extracted from our mines in Itatiaiuçu (Minas Gerais state) is, for the most part used in two of the group's plants, Ipatinga and Cubatão. Eventually, some surplus ore may be sold in the spot market; however, that is not our objective at the moment. Even when ore prices in the global market are high, the best plan for the company at the moment is to cover itself against increases in raw material prices by being self-sufficient.