Argentine Industrial Exports: The Example of Siderca

By Dr. Paolo Rocca, Vice-President of Siderca.

Argentine industrial exports have been growing dramatically since the mid 80's. At the same time their relevance for the domestic economy and employment has been increasingly recognized by policy makers ● Today, increasing industrial exports is one of the most important objectives of domestic economic policy. This is not a small achievement after decades of futile discussion over the issue of the importance of external markets vis a vis domestic markets ● Siderca, today the second largest exporter of Oil Country Tubular Goods in the world, is an example of a successful industrial expansion originally aimed to fulfill the demand of the domestic oil industry, and now mostly oriented toward the export market.

Growth of Industrial Exports

Since the beginning of the 70's, the evolution of total exports shows wide fluctuations in both level and composition. Industrial exports should be divided in three main categories, according to their origin:

— manufactures that process inputs of the primary sector, MOA (Manufacturas de Origen Agropecuario),
— manufactures that process industrial inputs, MOI (Manufacturas de Origen Industrial),
— petroleum products and sub-products.

Data shows that in the period 1986 to 1990, MOA represented 41% of the total amount exported, while MOI participated in 28% of the total. The exports of petroleum and sub-products also increased in the recent past, as a result of the expanded use of natural gas and the deregulation of the oil sector. In the last two years they accounted for 6% of total exports.

The MOI exports have been increasing regularly: 6% in 1987, 49% in 1988, 20% in 1989 and 17% in 1990. During the period 1986-1990 total exports increased 55% in constant terms, MOA increased 50% and MOI 121%. Siderca's exports led this trend, showing a 190% rate of growth during the five year period (Table A).

Estimated figures for 1991 anticipate further growth of both MOI and Siderca exports.

Impact of Industrial Exports

Traditionally, industrial exports have behaved countercyclically, that means they would increase during periods of recession and decrease during periods of expansion, as producers give priority to the internal market. Even though this is true for the aggregate (drops in GNP correspond to increases in the amount of exports), during the last years some industrial sectors have begun to invest and produce goods with the primary purpose of satisfying external demand.

This recent trend has also modified the deeply rooted belief that the industrial sector in Argentina has a negative trade

TABLE A
EXPORTS (million us$)

	1986	1987	1988	1989	1990	TOTAL 86/90	(est.) 91
TOTAL	6,846	6,349	9,128	9,565	12,347	44,235	NA
PRIMARY PRODUCTS (Except Petroleum)	2,506	1,736	2,404	2,046	3,339	12,031	NA
PETROLEUM and SUBPRODUCTS	164	97	157	334	984	1,736	1,200
MOA	2,687	2,826	3,943	4,018	4,676	18,150	NA
MOI (Except Petroleum Supbrod,)	1,489	1,690	2,624	3,167	3,348	12,318	3,500
SIDERCA	89	140	198	279	262	968	400

Source: Sub-Secretariat of Commerce and Industry

TABLE B
INDUSTRIAL SECTOR: TRADE BALANCE (million us$)

	1986	1987	1988	1989	1990
INDUSTRIAL EXPORTS	4,321	4,602	6,706	7,484	8,862
INDUSTRIAL IMPORTS	4,398	5,438	5,061	3,978	3,753
INDUSTRIAL TRADE	(77)	(836)	1,645	3,506	5,109
TOTAL TRADE SURPLUS	2,128	541	3,811	5,376	8,275
INDUSTRIAL TRADE BALANCE/ TOTAL TRADE SURPLUS (%)			43.2%	65.2%	61.7%

Source: Sub-Secretariat of Commerce and Industry
Note: Industrial Imports may include certain Goods and Services for the Primary Sector

balance, importing more intermediate and capital goods than its total exports. Since 88 the commercial balance of the industrial sector (industrial exports excluding petroleum, minus imports for the industrial sector) has been increasing steadily. In 1990 the foreign exchange balance of the industrial sector reached 5,109 million US$, more than 60% of the overall trade surplus (Table B).
As an example of a high domestic value added, fully integrated industrial activity, Siderca's imports represent less than 25% of its exports, a ratio well below that of other industrial exporters. In the same year, 1990, Siderca's exports represented 8% of the MOI exports, a ratio that will increase to about 10% this year. During the last five years, Siderca has been among the three first industrial exporters.

Petroleum and Petroleum Supplies

The petroleum sector of the economy has also strongly increased its exports in the period under consideration.
From 1986 to 1990 exports of petroleum & petroleum products increased sixfold, while the commercial balance of this sector has been positive the last couple of years (Table C).
The petroleum industry also strongly impacts the economy through its demand for equipment and component parts. The suppliers of equipment and parts have also expanded their sales to the world market as shown in Table D.

Siderca's Strategy

As a leading example within this group, Siderca adopted a strong export strategy in the mid seventies, leaving behind the prevailing policy of countercyclical exports.
The success of this strategy is the result of a systematic and consistent effort in several fields. Namely:
- An efficient use of past tariff protection.
  This has allowed Siderca to complete a capital investment program of 1 billion dollars in 10 years, which, in turn, has ensured today's solid competitive position in world markets.
- State of the art technology. Siderca

TABLE C
TRADE BALANCE OF THE PETROLEUM SECTOR (millions us$)

	1986	1987	1988	1989	1990
IMPORTS	2.7	273.0	188.0	70.0	26.0
EXPORTS CRUDE PETROLEUM	18.8	10.3	17.4	34.5	146.8
PETROLEUM PRODUCTS	145.1	86.4	139.3	299.0	846.4
TRADE BALANCE OF PETROLEUM SECTOR	161.2	(176.3)	(31.3)	263.5	967.2

Source: Sub-Secretariat of Commerce and Industry

TABLE D
MAIN SUPPLIERS OF THE PETROLEUM INDUSTRY EXPORTS (million us$)

	1986	1987	1988	1989	1990
BOLLAND	NA	NA	0.6	1.0	0.9
COMETARSA	0.5	0.7	5.4	5.1	8.1
FMC	3.2	5.0	2.5	2.9	8.0
HUGHES TOOL	13.9	8.8	8.3	11.5	13.7
IMPSA	6.8	7.9	9.5	9.4	18.8
SIDERCA	88.9	139.9	198.0	279.2	261.5
TOTAL	113.3	162.2	224.3	309.1	311.0

Source: Based on data of Tecnoil and Prensa Económica
Note: includes exports of non related products

has adopted the latest technology available for each piece of equipment -the new meltshop and continuous caster, as well as the second mandrel mill are good examples. In every case, shopping around for the most adequate process has permitted an efficient use of local competitive advantages. The Midrex process for example was adopted for the direct reduction of iron ore, using natural gas which is abundant in Argentina.

— Full Integration. Having a fully integrated industrial center in Campana, Argentina, Siderca controls the entire production process. Upstream, it starts from the production of natural gas which is obtained from gas fields managed by Tecpetrol, another company of the Techint Group. Downstream, the product is delivered completely finished with coupling and even thread protectors manufactures in house.

Highly automated manufacturing lines assure strict quality controls.

The main facilities are: an iron ore direct reduction plant, an electric steel meltshop with full continuous casting production, two continuous mandrel type mills, six finishing lines, one cold drawing plant, a coupling plant, storage facilities, a maintenance workshop and several auxiliary and service areas.

— Focus. Siderca is the only major world producer which is fully dedicated to seamless tubes for the oil industry. A fully equipped Research Center has been created with the principal purpose of developing new products -or improving existing ones- for the oil industry.

— Quality. Strong commitment to quality in essential to Siderca's marketing strategy. Emphasis on quality has been present even before deregulation and reduction of import tariffs, and has been crucial for the fast expansion of Siderca's sales abroad.

— Sales Organization. Siderca's visible commitment to each market is backed by a growing number of field offices, all of which are manned by Siderca's own staff. To date, Siderca has two offices in Argentina (Comodoro Rivadavia and Neuquén), a fully owned subsidiary in Houston-Texas, and five representative offices: Singapore, Dubai (United Arab Emirates), Beijing, Milan and Moscow.

— Human Resources. Great care in this area has ensured motivation and commitment from all layers and areas of the company by means of solid training and career planning.

Conclusion

Siderca and most of the manufacturers of equipment and components for the petroleum industry have grown together with the oil companies. They enjoyed limited government protection at the time when all domestic industries -including oil- was similarly protected, and many of them invested heavily in new equipment & technology.

As the oil industry was deregulated, all the benefits of supplier companies have gradually disappeared. They have been left however with a strong industrial and commercial structure which not only guarantees the domestic oil industry ready and competitive supplies, but has also generated one of the leading segments of Argentine industrial exports.

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