



UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



LIMITED

ST/ECLA/Conf.35/L.6
11 November 1969

ENGLISH
ORIGINAL: PORTUGUESE

MEETING OF EXPERTS ON ADMINISTRATION OF
PUBLIC ENTERPRISES IN LATIN AMERICA AND
THE CARIBBEAN

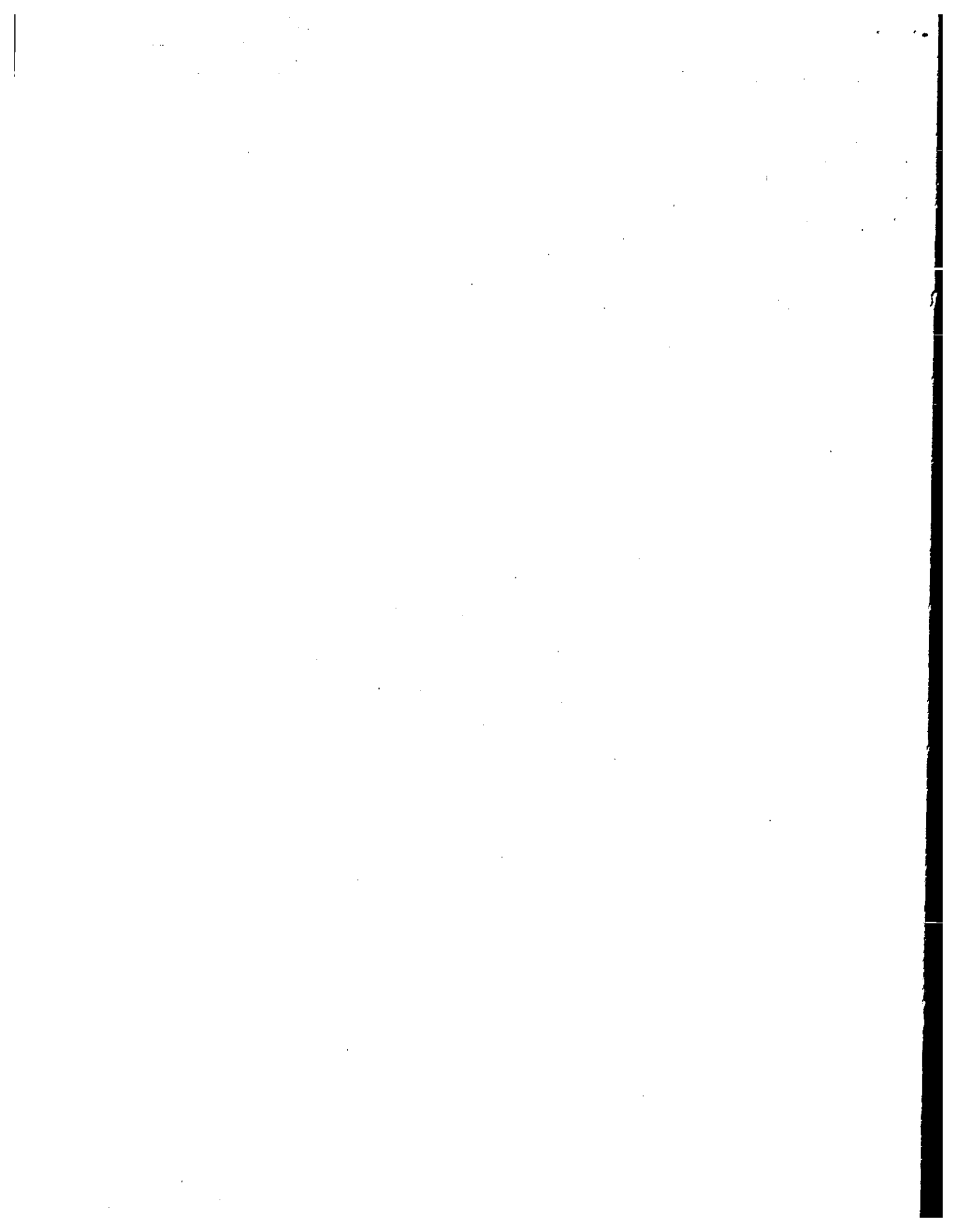
Santiago, Chile, 17 to 22 November 1969

SUMMARY

USIMINAS: A DEVELOPING PROJECT

Paper presented by

Mr. Guy Diniz Xavier and Mr. José Ruque Rossi,
of USIMINAS, Minas Gerais, Brazil



SUMMARY

USIMINAS operates under the terms agreed upon in the so-called Horikoshi-Lanari agreement, which establishes an initial production target of 500,000 tons of ingot steel per year.

The Federal Government of Brazil now holds about 80 per cent of the shares of USIMINAS, more than 50 per cent being in the hands of the Banco Nacional do Desenvolvimento Económico. In 1957 the Japanese company Nippon USIMINAS K.K. held 40 per cent of the shares. Their stock is now 19 per cent.

It is emphasized that USIMINAS enjoys great independence in making decisions on matters of finance. The fact that it receives the greater part of its financial support from the Government does not reduce this independence. It has a high degree of administrative stability, thanks to the attitude of non-intervention adopted by the Government.

USIMINAS has been able to develop an entrepreneurial spirit, largely by virtue of the terms set out in the Horikoshi-Lanari agreement.

As regards financing, a major difficulty has been the rapid inflation in Brazil. In ten years, the capital of the company increased 114 times as a reflection of the inflation, and, measured in dollars, it increased from 72 to 90 million. It is easy to imagine the difficulties of long and medium-term financial programming in those circumstances.

The Brazilian Government is deeply involved in the nation's iron and steel work, controlling more than half of total production. It is felt that a revision is needed of the forms in which this influence and control are exercised. At present, various government bodies control different steel mills. Co-ordination is inadequate. USIMINAS advocates the restructuring of organizations concerned with iron and steel making including both public and private enterprises in this field. The government bodies should:

- (1) Not intervene directly in the administration of the enterprises;
- (2) Maintain competition in order to guarantee efficiency;
- (3) Not discriminate between public and private enterprises through tax exemptions or credit facilities.

/There should

There should be two government bodies in charge of the implementation of iron and steel policies, viz.: on the one hand, a council to draft the policies, to establish general criteria for fundamental decisions regarding investments, to approve of iron and steel-making plans within the limits of the national policy, and to suggest price policies; and on the other, a financial enterprise which should amass the resources (public and private; national and foreign) required to finance the relevant projects, and participate as co-owner in the iron and steel mills.

In its quest for means of achieving financial equilibrium, USIMINAS has been able to increase production from 500,000 to 800,000 tons of ingot steel without major additional investment. They consider it possible to reach one million tons with only limited amount of additional investment. It is noted that this increase of production goes hand in hand with a reduction in personnel: since 1965 the members have dropped from 9,200 to 5,500. The means of improving productivity discussed in this paper are reorganization, introduction of standard costs, delegation of authority, control systems and sales programming.

A thorough discussion of the problems of depreciation is held, covering linear (or constant) depreciation, depreciation as a function of the volume of production, and depreciation as a function of the number of hours the equipment is used.

For short-life equipment, e.g. office equipment, USIMINAS uses a flat depreciation rate, and for equipment used approximately ten years, a rate that varies with the amount of production. Long-life equipment, say twenty-five years, carries depreciation rates according to a clock-shaped curve over the years. That is, the rate approximates a discrete representation of the normal distribution. In this way, a low rate is applied, during the first low-yield years, and during the last years of usage when the equipment is no longer fully competitive with its more modern successors. The years of peak productivity carry the highest rates of depreciation.