The skies may have brightened but the gloom lingers on – A report of the 26th Steel Success Strategies New York

With the steel industry in the United States still facing uncertainties after the recent economic crisis, the industry's general mood was best summed up at the 26th Steel Success Strategies conference in New York by one delegate who said: "*The skies may have brightened but the gloom still lingers on!*"

by Manik Mehta,
STI correspondent New York

THE 26th SSS conference was held 20 to 22 June in its established location, New York. Over 1200 delegates attended the event although not all for the full duration.

The duo Peter F Marcus and Karlis M Kirsis, two of the managing partners at World Steel Dynamics (WSD), jointly fired the first salvo with their opening presentation '*Chaos Therapy – Forging New Success Strategies*', which took stock of the steel industry's health and global trends.

Hardly mincing his words and declaring that "chaos is here to stay", Marcus spoke of a "warfare" situation in which the steel industry was on a "war footing".

The pair spoke of the "ever more competitive steel industry with the pricing structure reducing the mills' pricing structure". Both highlighted the problems facing the steel industry in the form of high costs of iron ore, coking coal and energy. The industry could barely avoid the effects of the 33% rise in demand for raw materials by China's steel-consuming industries, they maintained.

"In the circumstances, the US is the most attractive place to produce steel. The US has higher productivity, and automation has helped reduce hiring of workers. Other advantages include low natural gas prices, the distribution network and official incentives to attract investments," Marcus said.

> *" … two steps forward and one step back"*
>
> Mittal on global economy

They predicted that this year around 42% of obsolete steel scrap produced in the developed countries would be exported to the developing countries. The steel industry would undergo profound changes in 2025. Production would be 2.3bnt with an oversupply of steel products. "Demand will be high in India, the Middle East and the CIS countries".

The World Steel Association (worldsteel) said that the 2011 outlook for global steel demand appeared favourable, notwithstanding the slowdowns or declines in Japan and the Middle East and the recent moderate year-to-year growth rate in India. The association has also forecast a 6.4% growth in steel demand this year. For 2012, Marcus and colleagues predict that global steel demand may rise another 5% as it recovers in the Middle East and Japan; expand a further 3.7% in China reflecting government policymakers' 'last gasp' when it comes to promoting huge gains in fixed asset investment; and as a result of the normal business cyclical gains elsewhere in the world including rising long-lead-time construction activity in advanced countries.

Lakshmi N Mittal, chairman and chief executive of ArcelorMittal, recalled his words at the 2010 conference when he had seen 'silver linings' after the massive recession that had hit the steel industry from Q4 08 through 2009.

"A year on, although there remain plenty of challenges in the global economy, key indicators continue to move in the right direction, even if not at the speed we might like. Despite a softening in the second half, steel demand in 2010 actually grew more than 10%. Today, inventories remain relatively low in most major markets, with those in the US and Europe at levels below the historical norm. Real demand continues to gradually improve," he said.

> *"In the circumstances, the US is the most attractive place to produce steel…..."*
>
> Marcus

Mittal, who discerned a sense of bullishness in the automotive sector despite the effect of the earthquake and tsunami in Japan, commented on the improving profitability ArcelorMittal had been showing year- on-year since the onset of the crisis. "Moreover, we don't expect to see as strong a seasonal downturn as we did last year and believe that given the relatively low inventories and rising underlying demand, orders should pick up towards the end of the third quarter. So, although I have never believed that the path of recovery would be a straightforward one, all of this is encouraging," he maintained.

But he also administered a word of caution, saying that the global economy was still at a fragile stage, particularly in the developed world. Macro-economic indicators were "still taking two steps forward and then one step back". For example, there was the risk of sovereign debt in Greece; and the US had recorded a slowdown in real GDP from 3.1% to 1.8% in Q1 2011. The construction sector which drives over 40% of world steel demand, remained weak, especially in developed economies.

But in spite of all this, global steel crude production had reached a new record of 1.414bnt in 2010, according to worldsteel. 2011 is expected to show a further increase of between 6.5 to 7.0%.

There had also been a "definitive shift" in the steel industry moving increasingly towards China and the other growth markets.

Raw material memand

"Since the onset of the financial crisis in 2008, China's apparent steel consumption had increased by an incredible 38%. Although China continues to show strong demand for steel, the focus is now starting to move to look at the implications when this growth will slow," Mittal said, adding that the Chinese government had been taking active steps to slow growth and curb inflation.

Mittal also spoke about the urgency of grappling with the problem of climate change, emphasising that the steel industry should play its part to help reduce CO_2 emissions. His own company ArcelorMittal, for example, had set a target to reduce its CO_2 emissions by 8% from 2007 to 2020.

Iron-ore pricing had been a source of uncertainty for the industry and had added a "new level of volatility". "Steep cost curves mean that short term fluctuations in demand or supply may create strong spot price movements for such products as iron ore and coking coal, although the impact of this can shift from a negative to a positive squeeze over the cycle," he said. Mittal also emphasised the need to have captive mines to help hedge volatility of raw and consequently, finished materials.

Since the crisis, ArcelorMittal has set itself a target of increasing its iron-ore production to 100Mt by 2015, according to Mittal. "We are making excellent progress in delivering on this target. Recently we announced the expansion of our existing assets in Canada. And in the coming months, we will celebrate the first shipment of iron-ore from our mines in Liberia. This is a landmark event for our company. But it is also a historic day for Liberia as it is the first ore the country has shipped in over twenty years. The ore will be shipped to our plants in Europe, as well as some independent customers around the globe," Mittal allowed further glimpses of his iron-ore acquisition strategy.

Taking a dig at Peter Marcus' past calls for establishing steel trading futures, Mittal, whose business is the spot and contract market, said: "We have been listening to Peter about futures but we have not seen the future of the futures!" His pun caused ripples of mild laughter amongst the audience.

Battle Galactica panel

A panel comprising Jean Sebastien Jacques, group director (strategy) of Tata Steel Ltd, John Lichtenstein, MD (global metals industry practice) of Accenture, Alexei A Mordashov, CEO of Russia's Severstal and Jo-Chi Tsou, chairman of Taiwan-based China Steel, discussed international steel trade under the heading 'Battle Galactica'. Ian Christmas, retiring Director General of worldsteel moderated.

Mordashov saw "slow improvement" in global steel demand. "The recovery in the developed markets such as the USA, Europe, etc is slow. The emerging markets are posting strong growth. China is a strong, healthy player," he said, adding that India is probably the best steel market with unique attributes such as a young population and availability of iron ore. Severstal recently entered into cooperation with India's National Mineral Development Corporation (NMDC) to build an integrated steel plant in Karnataka state with a capacity between 2 and 5Mt/y.

Sounding bullish about the USA, Mordashov said that the USA offered "all the fundamentals for growth". His company had made an investment of $550M in Columbus, Mississippi its EAF - thin-slab caster plant but sold three of its four integrated plants in USA – Wheeling Pitt, Sparrows Point and Warren to Renc in March this year.

Jean Sebastien Jacques, Group Director (strategy) at Tata Steel Ltd highlighted his company's philosophy in regard to the steel business: "We don't invest in a company … we invest in our children. When we invest in a mine, we invest in our grandchildren," he said.

Like ArcelorMittal, Tata Steel also considers climate change a "huge issue" of global concern. Tata is working with the European consortium ULCOS to evaluate ironmaking methods with emphasis on reducing CO_2 emissions.

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Jacques, Group Director (strategy) Tata Steel Ltd

Jacques contended that China's growth had led to a conflict between the steelmaking industry and the raw-material mining industry. "India is getting important both in terms of resources as well as market." India was definitely the place to be. South Korea's Posco Steel, ArcelorMittal, Severstal and others were keeping a close eye on India. While China had overtaken the United States and Europe in terms of steel production and consumption, India had overtaken Russia and Japan.

Jacques said that after the financial crisis, Tata had become acutely aware of the limitations of consolidation. "A global steel company is not a recipe for solving problems," he stated.

According to Jacques, Tata Steel (India) had expanded output at its original Jamshedpur plant and commenced building a greenfield site in Orissa. The company had strengthened its presence in the mineral-rich Indian states of Jharkhand, Chattisgarh, Orissa and others. "The ability to secure raw materials in India has become more and more complex," he said. India has plenty of iron ore to offer but the amount of coking coal was limited. "India also offers thermal coal and gas. If you play your energy card right, you should not have any worry," he maintained.

John Lichtenstein of Accenture urged the Chinese Government to relax the restrictions on foreign involvement in Chinese steel companies.

Jo-Chi Tsou, chairman of Taiwan's China Steel, was "deeply worried" about growth of Chinese capacity and its impact on Taiwan. He underlined the need for coordination in China between that country's government and the steel companies to streamline the situation.

Later, at a luncheon award presentation, Ian Christmas, retiring director general of the Brussels-based World Steel Association, was awarded the 21st Willy Korf/Ken Iverson Steel Vision Award for his services to the industry. The 12th Willy Korf Award for Young Excellence went to Dr Luckman Muhmood.

India in focus

If China dominated past conferences in New York, it was no longer alone this year. India was also a focal point of the discussions at the conference. Sumit Issar, senior general manager (steel service centre group) at Mumbai-based Mahindra Intertrade Ltd, described India as a "major force to reckon with" in the steel sector. Mahindra Intertrade, which processes steel, sources steel from India though it also imports it from China, Japan, South Korea, etc.

In an interview with *Steel Times International*, Issar said that his company is India's largest supplier of grain and non-grain orientated electrical steels and represents Nippon Steel in this product. Mahindra Intertrade is the third largest buyer of steel for the automotive industry, including for an associate company in the Mahindra group.

"Steel companies in India may encounter problems such as lack of land, bureaucracy, etc but steel companies also have problems in China. Foreign companies wanting to invest in India should partner with an Indian company. But foreign companies should also be willing to pay the prevalent price of land and not expect the government to provide them with heavily subsidised land," Issar said.

He continued that there was a strong demand for steel in India. "The biggest challenge will be getting adequate quantities of steel. Prices in India have been stable; though at a higher level.

"Prices will remain so for sometime but we expect some downward correction. India's steel in the commodity category is good for use in construction; however, Chinese steel products belonging to the upper- quality category are better for the automotive industry," Issar maintained.

US skies still bright?

In another panel discussion the participants were James Wainscott, chairman AK Steel; Keith Busse, President/CEO, Steel Dynamics; Andre Gerdau Johannpeter, CEO Gerdau of Brazil, Lou Schorsch, President/CEO (Americas) ArcelorMittal, Nicholas J Sowar, partner, global steel leader and Deloitte & Touche LLP. The panel, which highlighted conditions in the US steel market, was moderated by Raju Daswani, President/Global Publisher American Metal Market.

While Sowar contended that the US steel industry would continue to be highly competitive, it will need to identify its competitive advantages and build on them. Schorsch was concerned about the rising prices of raw materials and the debt crisis in Greece.

Busse averred that despite the downturn experienced by his company during the crisis, "(we) will continue to grow and we may have a larger footprint outside the USA," implying that the company was looking at pastures beyond the US boarder. Busse also warned that the US does not have a consistent energy policy in place and "needs one badly".

He attributed the US balance of trade deficit to "two simple factors" – 'China' and 'oil'. America needs a viable energy policy. According to Busse, there was good potential for substantial investments in the steel industry but it was hampered by uncertainty over the tax policy, energy policy, environmental policy, etc.

Kalyan Ghosh, the Burlington, Ontario-based chief commercial officer of India's Essar Steel Algoma, said that the economic crisis of 2009 had a severe impact but the company did not resort to lay-offs. "The market is still very cautious.

The customers need the materials but they are taking a wait-and-watch approach and not resorting to any massive buying. The raw-material prices are quite high but our customers understand that steel prices cannot go down any further," Ghosh said in an interview with *Steel Times International*.

Essar Steel which is headquartered in Mumbai, India has plants in Hazara, Gujarat state, where it has expanded capacity to 10Mt/y; in Canada, Essar Steel Algoma, which has 4Mt/y capacity and Essar Steel Minnesota in USA where it plans to build a DRI (direct reduced iron) fed steelmaking facility but currently only mines and concentrates Taconite ore. It also has a cold rolling and galvanising plant in Indonesia.

John Koepfle, director of corporate development at Midrex Technologies, Charlotte, North Carolina, was bullish about India. India and Iran, he said, together account for 70% of the world's DRI production. Global DRI production is expected to reach 120Mt by 2020. The raw-material supply situation in the Middle East and North Africa (MENA) region, India, China, etc was good, he added.

In an interview on the sidelines of the conference, John Koepfle told *Steel Times International* that the Midrex process typically uses natural gas as the reductant and fuel, but coal is also a possibility, after gasification.

Since 1969, Midrex has built more than 70 shaft furnace and rotary hearth furnace modules across the five continents. Midrex recently signed an agreement with India's Jindal Steel & Power to build a natural gas DRI module in Bolivia.

"We have been in discussion with India's Jindal Steel & Power for a number of years. Jindal is to use our technology called MXCOL to make high-quality DRI (from gasified coal). Jindal has coal and electric furnaces. MXCOL which will eliminate Jindal's dependency on imported coking coal will also help in reducing operating costs," Koepfle said.

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Jacques, Group Director (strategy) Tata Steel Ltd

Essar Steel has also bought idled Midrex modules and moved them to Hazira, Gujarat.

Koepfle recalled that he had received more enquiries back in the 1970s from India but in 1980 Essar contacted his company after they bought a second hand Midrex unit from Germany. "We have done good business in India," he said. Midrex works closely with Kobe Steel, its parent company.

Daniel DiMicco, chairman/CEO of Nucor Corporation, a highlight speaker, emphasised that manufacturing and steel production in the USA were "important and healthy" for the US economy. "The most frustrating task has been job creation," he said, adding that he had his doubts over the government's job rescue programme. Saying that the country faced an economic slowdown, DiMicco said that the country needed to build and innovate in order to create wealth which could not be created through trading futures – a veiled criticism of Peter Marcus of WSD, according to some experts at the conference – or through a "fast-buck mentality". The global success of trade should be long term. Short-term success led to distortions and trade conflicts. DiMicco saw "major challenges" in the rapid development of China, commodity prices, etc. In an obvious reference to Chinese companies, he said that state enterprises were "serious issues we need to address".

David H Phelps, president of the American Institute for International Steel, supported DiMicco's view that the US administration should adapt policies aimed at propping up manufacturing. "The government needs to take action to make manufacturing interesting," he said in an interview.

On the question of job creation, Phelps said that "America is not losing jobs but we are becoming more productive thanks to automation which makes labour redundant. "Prices in the US are higher than elsewhere because of the supply and demand situation". He believed that while the SSS conferences are interesting, it would make the event even more interesting if there were also panels including authoritative representatives of steel-consuming industries.

The annual Steel Success Strategies event is jointly organised by World Steel Dynamics www.worldsteeldynamics.com/ and American Metal Market www.amm.com
The 9th European Steel Success Strategies conference takes place in London 17 - 18 October 2011 organised by WSD and Metal Bulletin

www.metalbulletin.com/EventDetails/0/4229/9th-Steel-Success-Strategies-London.html?LS=%%Ins1%%

But the SSS conference has also become a venue that attracts players not directly connected with the steel manufacturing or trade. Besides a large turnout of bank representatives, the event also attracted transportation and logistics companies that handle steel.

Michael J Smolenski, president/CEO of Pennsylvania-based Coil-Tainer Ltd, which specialises in transportation of high-value steel coils, made a strong pitch for his company in a special workshop called 'Logistics and Transportation'.

"We subcontract and have agents in different countries. Our major markets are Belgium, Spain, Italy, Turkey. We own 3500 pallets," Smolenski said, adding that he witnessed a slowdown in traffic to the United States.

The effects of the economic recovery had not trickled down to various segments of the industry which was still reeling under the caution exercised by customers. Smolenski attributed the decline in inbound traffic to the downturn in construction activities.

"Traffic to Europe and Asia, on the other hand, has been strong in 2010 which was, in fact, our best year. We were also very happy with the growth in our traffic to Italy," he said. ■