

USA quietly positive about recovery

Participants at the American Institute for International Steel conference were quietly confident that the worst of the recession is over. Among the topics discussed at the annual event was China's steel industry and the impact of its exports on the USA, protectionism and whether the USA was a net exporter of steel.

By Manik Mehta*

Delegates at the American Institute for International Steel's (AIIS) annual conference were more optimistic about the market, in contrast to last year's downbeat mood.

However, a year on and many at the November 9, New York, USA jamboree were unable to say with certainty that they were over the worst, with many preferring to use the cautionary term 'probably' when they said that the recession was ending.

Steel consumers were looking for signs that it was 'business-as-usual'. There was also a much-debated impact of China's role for the global steel consumers and producers.

China

Patrick McCormick, managing partner of World Steel Dynamics, pointed out that China's imports had gone up while its exports had declined.

"China will not flood the world markets with steel. Steel futures trading is on the upswing," McCormick seemed to be assuring the steel industry.

For Charles Bradford, who has been a metals analyst for more than 44 years and is now a partner at Affiliated Research Group, the leading market segment for the steel industry in the USA is the non-residential construction market. Bradford said unemployment in the USA had reached 10.2% but in the 1982 recession the rate was much higher. He predicted that a 1% population growth expected in the USA would fuel car purchases growth. "Americans have spending genes," he declared.

While automobile exports to China had increased, US imports per capita were much less than that of South Korea and Germany. "Imports are not the main issue ... they are made out to be," he contended. In 2010 buyers will be looking for lower steel prices, he predicted.

Mr Bradford highlighted an idiosyncrasy of China's steel mills which can be built faster and are less capital expensive than those in the west. "Chinese mills are making money despite their costs. Iron ore costs have been soaring because of the Australian dollar's appreciation vis-à-vis the US dollar," Bradford maintained.

The much-anticipated address by Daniel R Pearson, vice chairman of the International Trade Commission (ITC), turned out to be an exercise in providing basic information on the working of the commission. But Pearson, nevertheless, gave an account of the group in

a matter-of-fact manner, highlighting the various tasks it performs.

Not many in the steel industry knew that the ITC, which has handled disputes concerning the steel trade, comprises six commissioners with three from the Republican and three from the Democrat parties. The commissioners are confirmed by the US Senate. However, the chairmanship of the ITC rotates between the political parties every two years and it is the president's decision to designate the chairman.

"The Commission remains fair and neutral," Pearson added.

Disputes

Contrary to the widespread notion among many steel industry representatives, the anti-dumping and countervailing duties are determined by the Department of Commerce, which tries to ascertain whether steel imports are being sold at unfairly low prices. The petitions are filed with the ITC. The anti-dumping duty is used against firms that sell products at 'less than fair value' whereas the countervailing duty is imposed to offset government subsidies.

Speaking from his experience in dealing with the steel industry, Pearson said that the global steel markets are

dynamic and trade flows would change with the times. "Steel market trends and trade remedies influence each other," he maintained.

Steel disputes also evoke a great deal of legal complexities. It was up to Lawrence W Hanson from the law offices of Lawrence Hanson to point out many of the intricacies involved while grappling with trade disputes involving steel. Hanson, who served as assistant regional counsel for the US Customs Services, has provided legal advice to customs personnel, including port directors and other customs officials, import specialists, inspectors and others.

Shipping

Shipping steel has become an industry in itself, the importance of which was documented by the large presence of specialists representing many logistics companies at the conference.

Eric Hansen, vice president of Cooper T Smith Stevedoring Corp, who started his career with the Port of New Orleans and has been working in the stevedoring and transportation logistics field for the past 21 years, addressed issues relating to steel transportation.

Hansen's address, entitled 'Exporting for Fun and Profit', dwelt on steel exports which he described as 'sporadic'. Though vague, the term suggested the unsteady nature of steel exports from the USA.

Atti Schmidt, executive vice president of Nucor Trading USA, started his presentation by retracing the history of trading, going back to the times of Egyptians, Phoenicians, Greeks and Romans.

"Trading of steel and steel products is fairly new and only began after the Second World War. Steel products such as wire rod, merchant bars and A120 pipes were imported into the USA in the early 1960s from Western Europe and Japan, countries which had just rebuilt their destroyed steel industries," Schmidt said.

This historical perspective by Schmidt provided an interesting overview of the evolution of the steel trade. He said most large steel-producing nations are exporting at least 10% of their production overseas while some, such as Japan and South Korea, even more than a third of their production. "It enables them to keep prices somewhat stable in weaker times by selling their products outside of their home market. Lately, some of the CIS countries have joined the 1/3 club," he said.

Exports

But this had, clearly, not been the case with the USA. While a substantial quantity of steel crossed the border into Mexico and Canada in trucks and railcars, most mills in the US have not been involved in the overseas steel export business, while others such as USX and Nucor are already exporting. Nucor exported about 11% of its steel production in the first nine months of 2009, even reaching 12.5% in the third quarter of 2009.

For a US-based steel mill to be a successful exporter, Schmidt said, it needs to provide quality products at competitive prices.

"The USA is well positioned to become a vital part of the world steel trade. The value of the US dollar is likely to decline further in the coming

years caused, mostly, by the enormous budget and trade deficits of the USA. Based on an average price of hot rolled coil of \$500/t FOB ST every 1% decrease in the dollar's value makes exports \$5/t more competitive. From March to September 2009, the value of the dollar lost 14.9% against the euro; that would be \$74.50/t if we use the \$500/t example," Schmidt explained.

According to Schmidt, markets in Central and South America "appear to be a good export destination." While Venezuela and

US exports (short tons)				
October 2009	September 2009	% change	October 2008	% change
983 218	989 821	-0.7%	1 289 252	-23.7%
US imports (short tons)				
October 2009	September 2009	% change	October 2008	% change
1559	1211	28.8%	3118	-50%

Table 1 Steel exports/import October 2009 vs October 2008 in USA

*US correspondent

Argentina are going through tough political times and may not have the need for increased imports, countries such as Chile, Peru and particularly Brazil are enjoying significant growth rates. "With the soccer world cup in 2014, the Olympics in 2016 and the discovery of large offshore oilfields, Brazil is looking at much larger imports (of steel) than they already have now," Schmidt said.

But what does this and other current factors affecting the steel industry mean for steel traders?

"For steel traders, the outlook may not be as bright. Imports average about 20Mt during the last 10 years, most of it handled by steel traders. Imports are likely to be around 15Mt this year and based on most economic forecasts for the USA, I cannot see import figures going higher; they will, probably, even decrease," Schmidt predicted.

More of the imports of slabs and hot rolled coils are handled by mills directly. "That will make it very hard for

steel traders to make up for the loss of import business, especially if US mills start handling their export business through their own trading companies or exclusive channels. Independent steel traders as well as 'mill traders' such as Nucor Trading have to evolve in providing better service and US domestic mills need to learn more about how to handle the international markets," Schmidt said.

But the financial crisis in the US has also had a major impact on the steel industry. The AIIS event in 2008 stood under a cloud of financial and economic gloom. "The economy was on the verge of collapse and the financial industry was in complete chaos," is how John Grieco, the first vice president of Bank Leumi, described the situation in 2008.

But the stimulus packages have helped the economy move forward. The financial situation, Grieco said, is better now than last year. "Banks are more profitable today," was his assessment.

He predicted that banks would soon start giving loans. "They were inactive last year but sooner or later they will get out and do business. The banking system is more stable today and economic recovery has begun. However, job creation continues to be a challenge," he maintained.

Gary Horlick, who runs the law offices of Gary N Horlick, was critical of the 'Buy America' mantra being used by two Californian senators, a call that would strengthen the process of protectionism in the country. Such a campaign would not get support in Congress which would find the price of supporting it 'very high'.

Nucor keynote address

In a hard-hitting keynote address John Ferriola, Nucor chief executive, highlighted the company's push into foreign markets. With exports accounting for 10% of its business, Nucor has a built up huge workforce in 22 countries.

Ferriola said growth in the Middle East and Africa constituted only a fraction of that of China. Nucor plans to grow in the international markets. It is setting up direct sales offices and has three major production operations in South America, Trinidad and Italy. Mexico, Brazil and Columbia are expected to have Nucor offices. He described Nucor's

overseas engagement as a 'win-win situation' for the company and its shareholders.

Ferriola said that American manufacturing jobs are at their lowest level. Manufacturing jobs pay more than jobs in the services sector and, as such, cannot be replaced by services jobs.

"The real unemployment and underemployment rate is much higher at 17.5% compared to the official 10.2% unemployment rate declared by the government," he said.

Though Nucor champions free trade, Ferriola also called for safeguards and urged the US administration to create a "level-playing field in which we can compete in a fair manner." China, he said, used a number of measures to protect its industry. Cheap labour was not the vital issue here, he said, because steel production is not labour intensive. The steel industry, he pointed out, was raw-material and energy intensive. The Chinese government took over a substantial part of the production costs.

China was also engaged in currency manipulation. "The Chinese currency remains undervalued. The yen and euro have fluctuated but the Chinese currency remains strong. China extends subsidies to its industry," he added.

US a net exporter?

One question participants debated was whether the US steel industry had indeed become a net exporter, as claims the AIIS.

The AIIS arrived at this conclusion after reviewing the steel trade figures for August 2009. But many disputed these figures and pointed out that the declining level of imports in August had created a 'statistical trade surplus', a development which may not happen soon. If the 'surplus' claims of the AIIS are true, then this would have been the first time in the US steel industry's history.

Table 1.

The fact remains that global demand for steel has plummeted in 2009 compared to 2008. US steel output fell by 45% compared to 2008 and the domestic industry operates at 60% of capacity, according to the American Iron & Steel Institute (AISI), the steel producers' industry group.

However, David Phelps, the AIIS president, pointed out that the 'dramatic development' showed the increasing importance of US steel exports to international markets 'which are returning to stronger levels of demand' and also buying the high-value and good-quality American steel.

Many steel analysts are also rejecting the methodology used by the AIIS to conclude that steel exports exceeded imports. Indeed, the AISI contends that the August figures showed a trade deficit of 175kt of steel. US exporters shipped 800kt of steel in August 2009 compared to 707kt in July 2009, a 13.1% increase, but a 40% decrease compared to August 2008. According to year-to-date figures, exports decreased 40.5% compared to 2008, from 9.1Mt in 2008 to 5.5Mt in 2009. ■

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