

CANACERO: La Competitividad en la Cadena Productiva del Acero

Changing Times – U.S. Minimill Competitiveness



Thomas A. Danjczek
President
Steel Manufacturers Association
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- SMA
- NAFTA Support
- Changes
- Steel Demand Drivers & Forecasts
- Raw Materials
- What the U.S. Needs to Do
- Final Thoughts

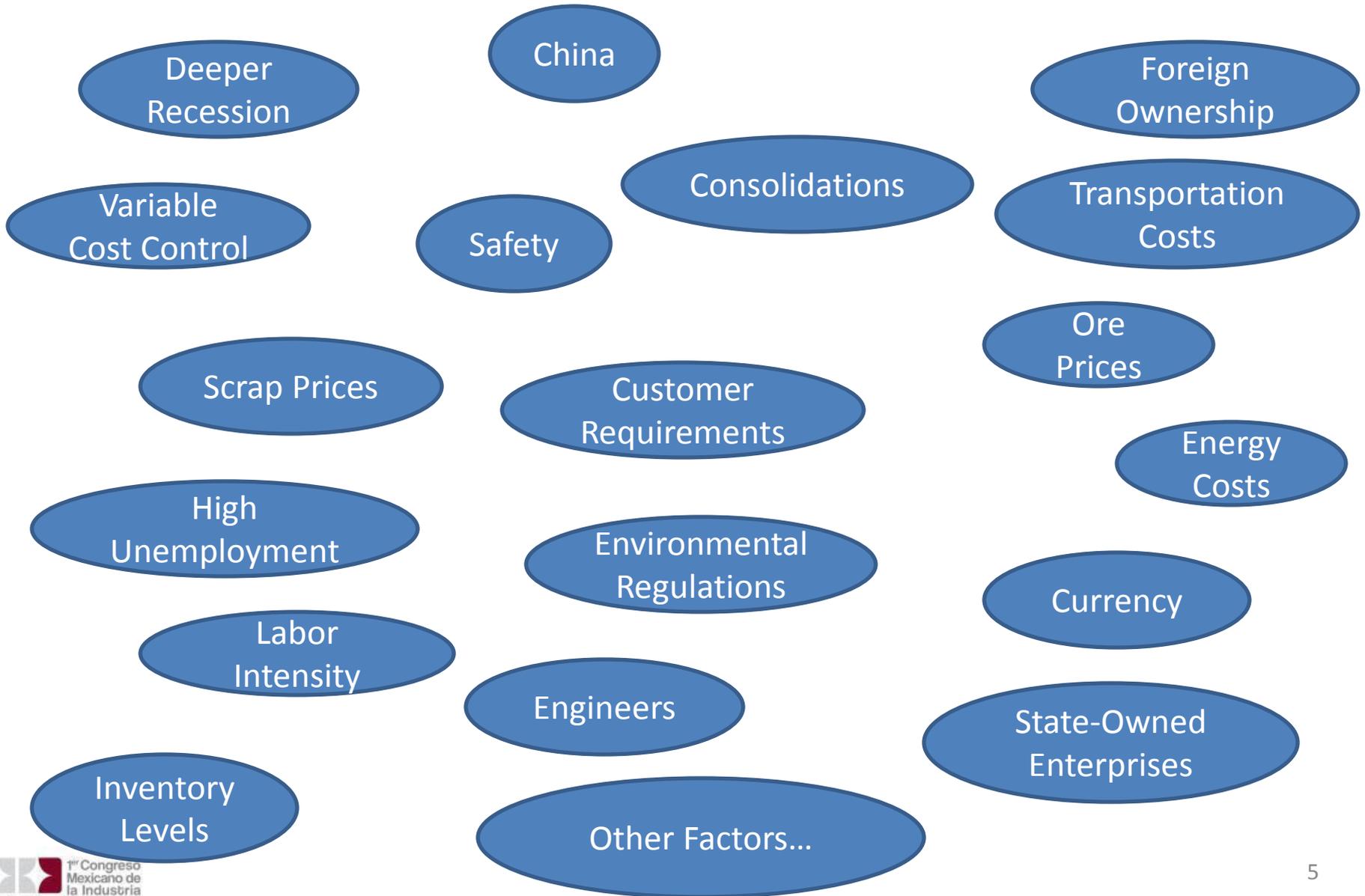
The Steel Manufacturers Association (SMA)

- 35 North American companies:
 - 30 U.S., 3 Canadian, and 2 Mexican
- Operate 125 steel recycling plants in North America
- Electric Arc Furnace (EAF) steelmakers using recycled steel
- EAF steel producers account for nearly 2/3 of U.S. production today
- SMA represents approximately 90 million of U.S. 120 million ton capacity (75%)
- 128 Associate members - Suppliers of goods and services to the steel industry
- Governance – i.e. vast majority

-SMA and its North American members have long supported an open trade policy based on comparative advantage; NAFTA producers have strengthened themselves through competition and open markets.

-SMA members have enhanced work with their NAFTA partners through OECD, NASTC, WTO, AISI, CANACERO, and CSPA in areas including:

- Chinese Mercantilism
- Predatory Trade in Ferrous Scrap
- NAFTA Prosperity
- NAFTA Security
- Infrastructure, Energy, and Transportation
- Customs
- Environmental Issues
- Removal of Subsidies (“Enemy of Free Trade”), and Other Market-Distorting Mechanisms



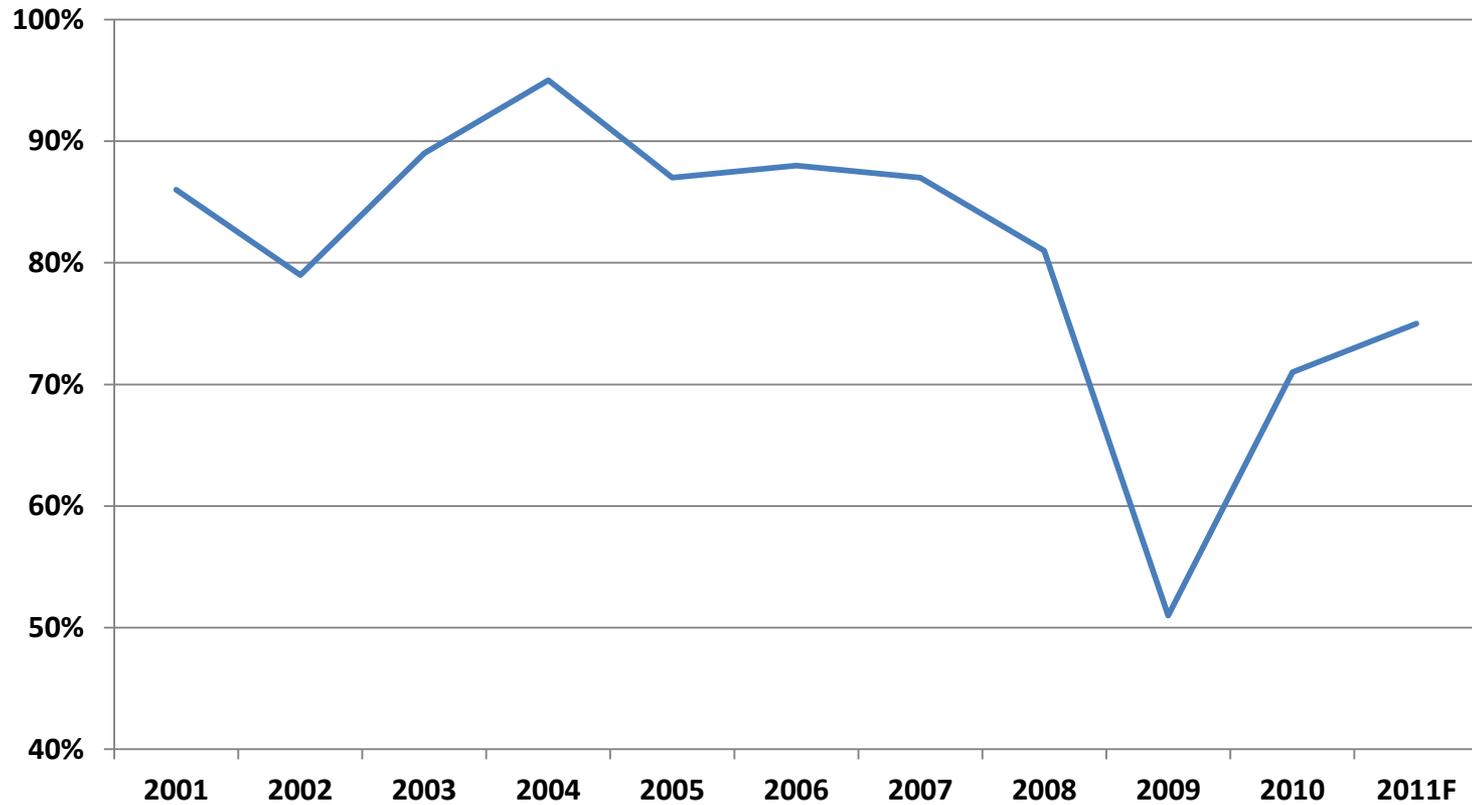
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Steel Changes

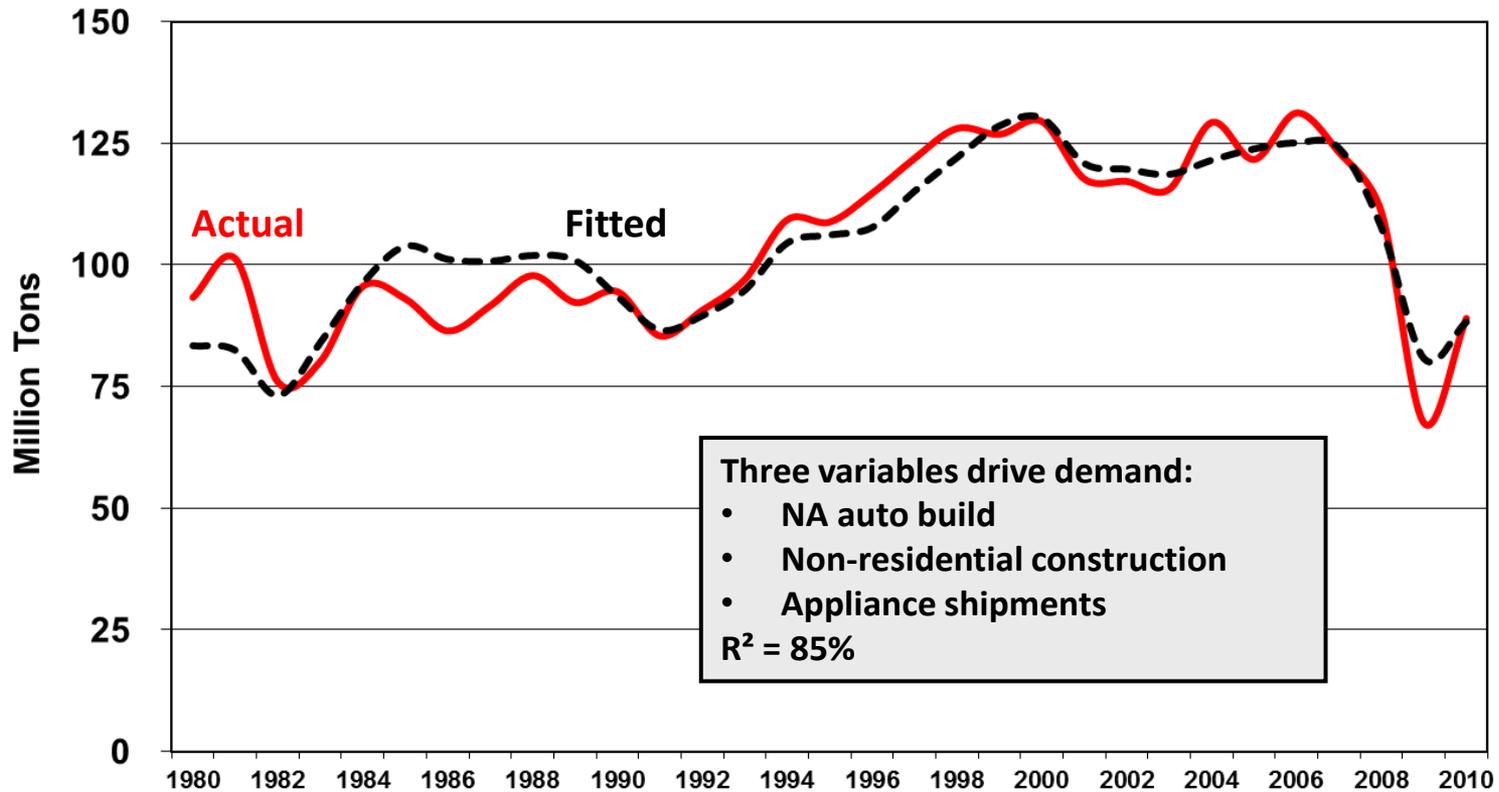
	<u>1970</u>	<u>2010</u>	<u>2011(e)</u>	<u>Comment</u>
Steel Production (mmt)	595	1414	1550	Growth in developing world
EAF Production (World – % of production)	<10%(e)	27%	28%	
EAF Production (U.S. - % of production)	<10%(e)	63%	64%	Minimill growth
Continuous Casting (World – % of production)	<10%(e)	95%	95%	Remember – yield gain
Exports – World (% of production)	22%	29%	30%	High percentage
(tons – mmt)	110	386	460	China 25mmt exports vs. 22mmt imports – only 10%, yet 45% production

Raw steel capacity utilization may reach 75% in 2011

Capacity Utilization (%)

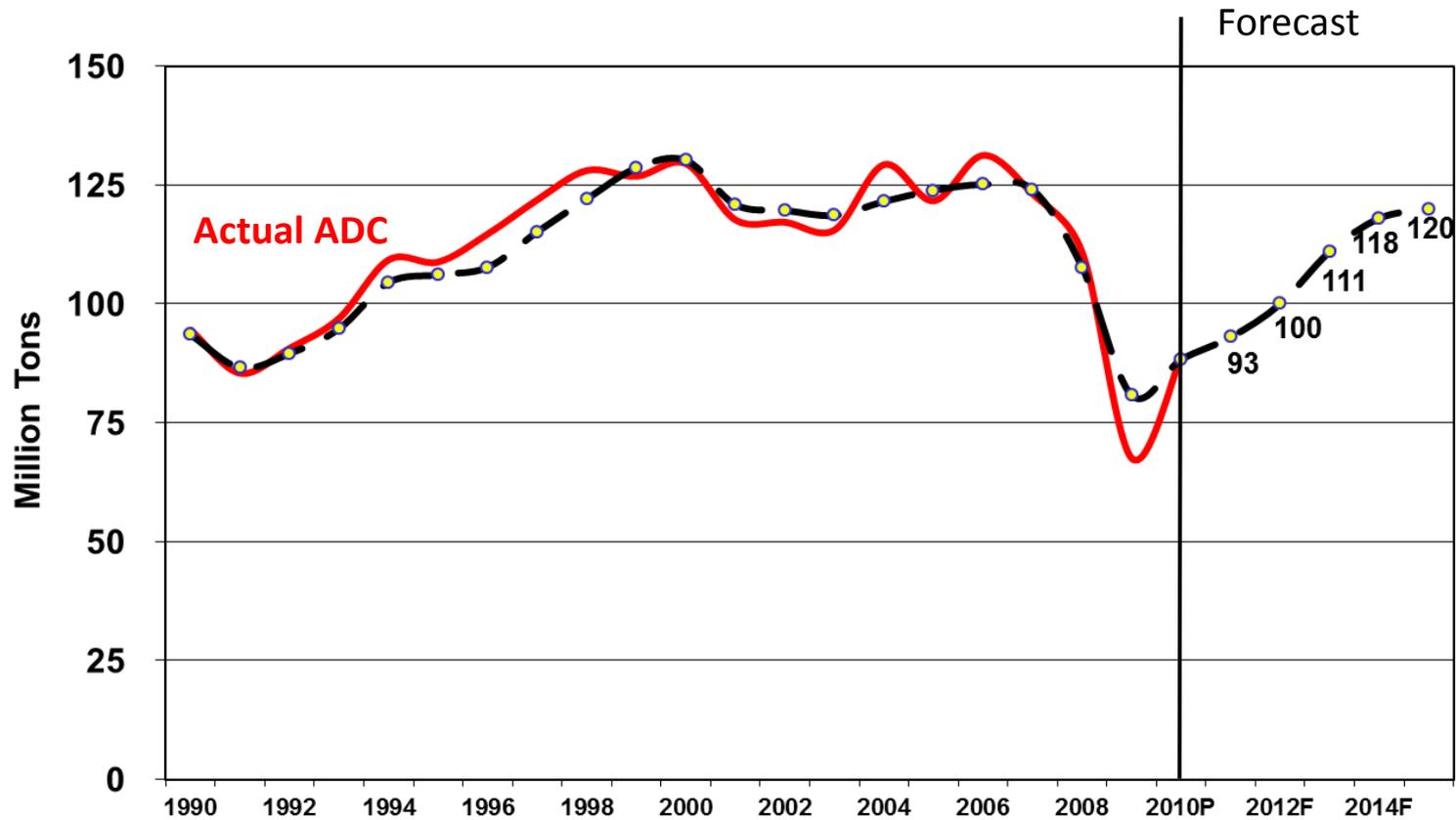


Finished steel demand drivers in US



Source: First River

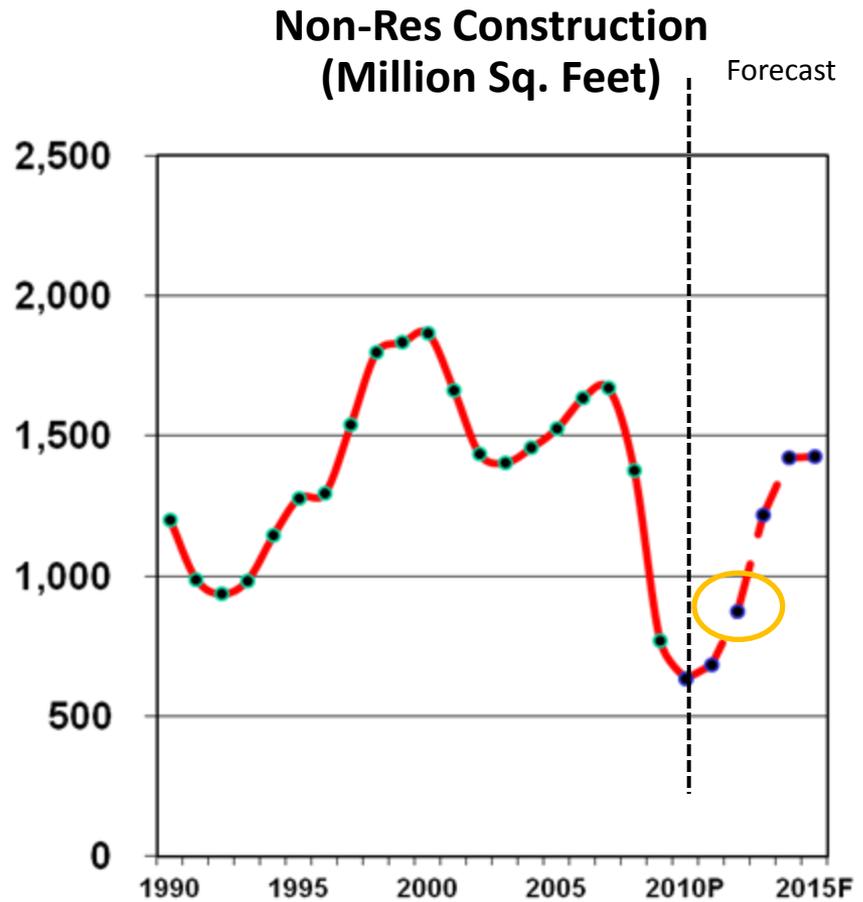
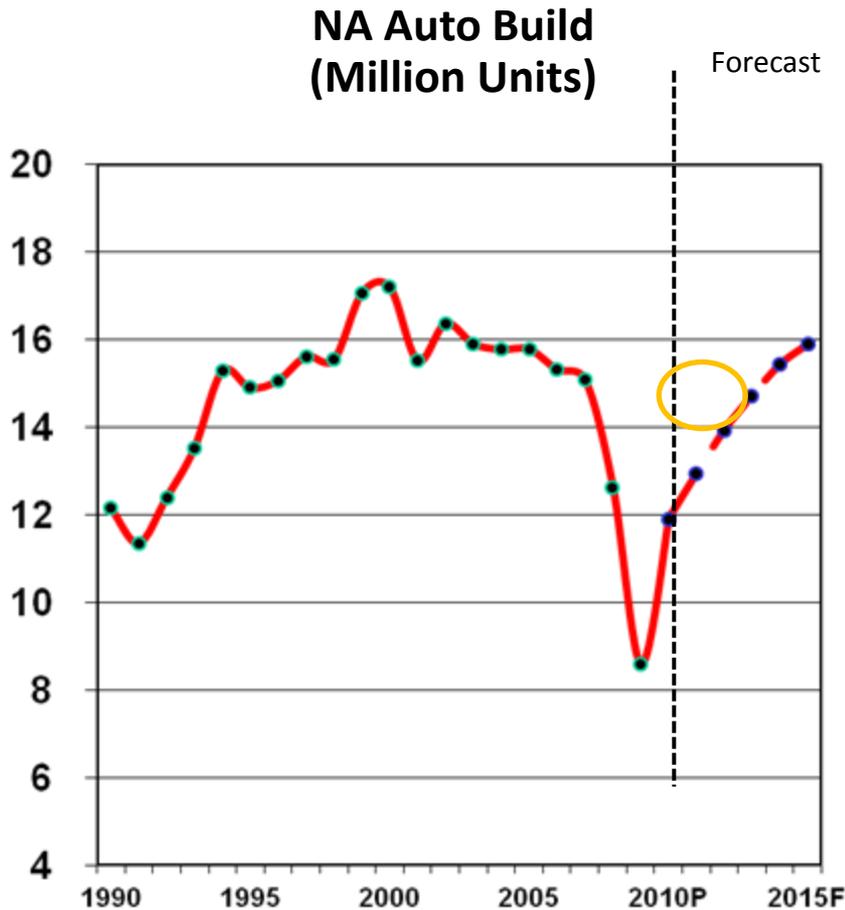
US finished steel demand forecast



Source: CSM, FW Dodge, AHAM, First River

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Auto build & non-res construction expected to recover, but not to previous peak

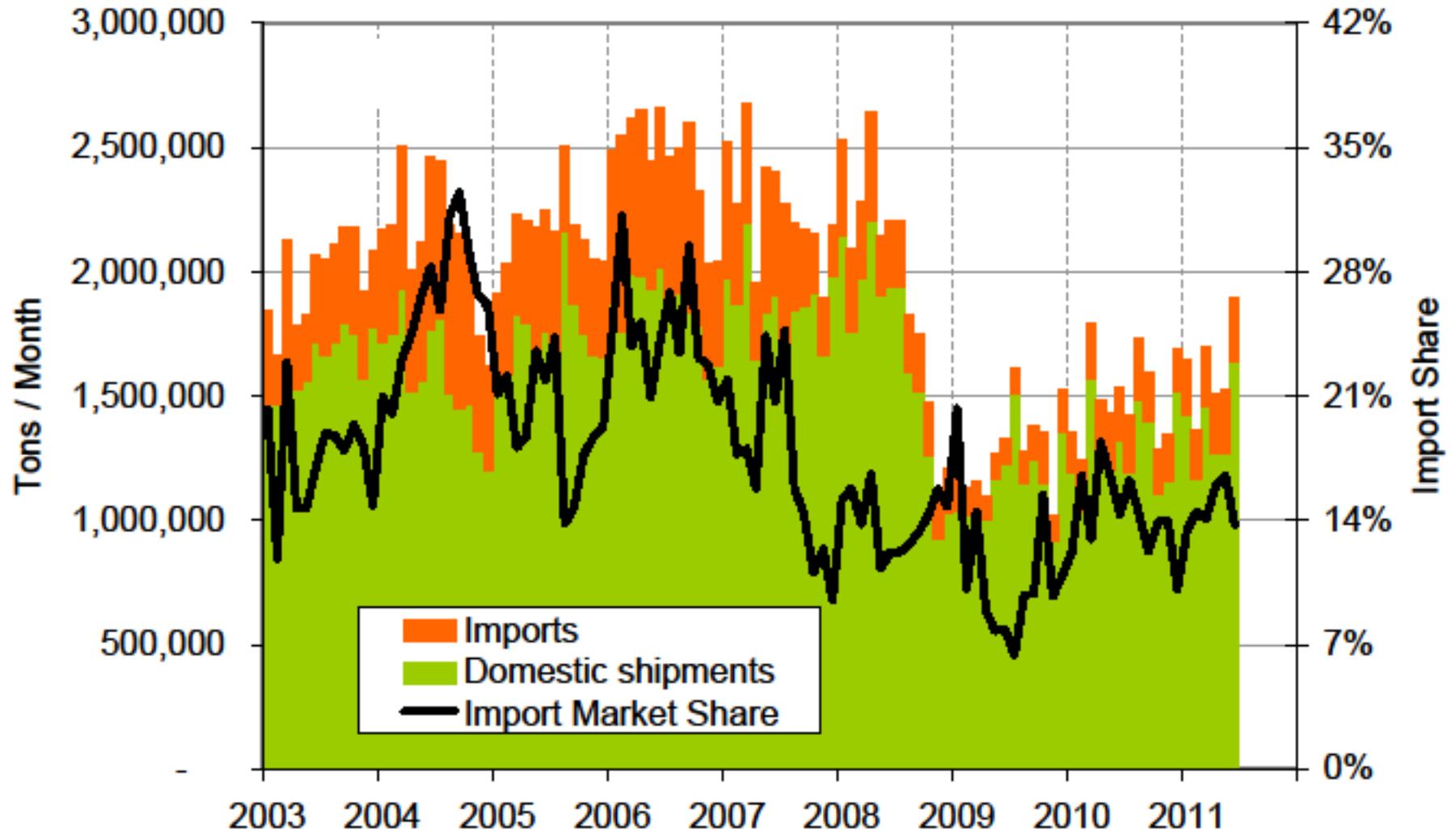


Source: CSM Worldwide, FW Dodge

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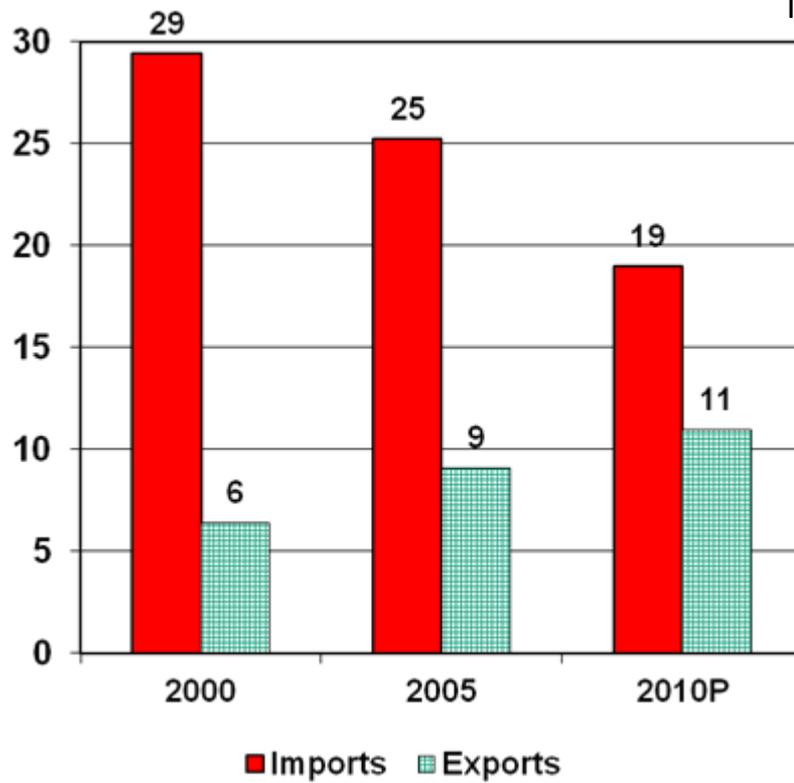
Supply All Long products (Except SBQ).

Domestic Shipments, Imports and Import Market Share.

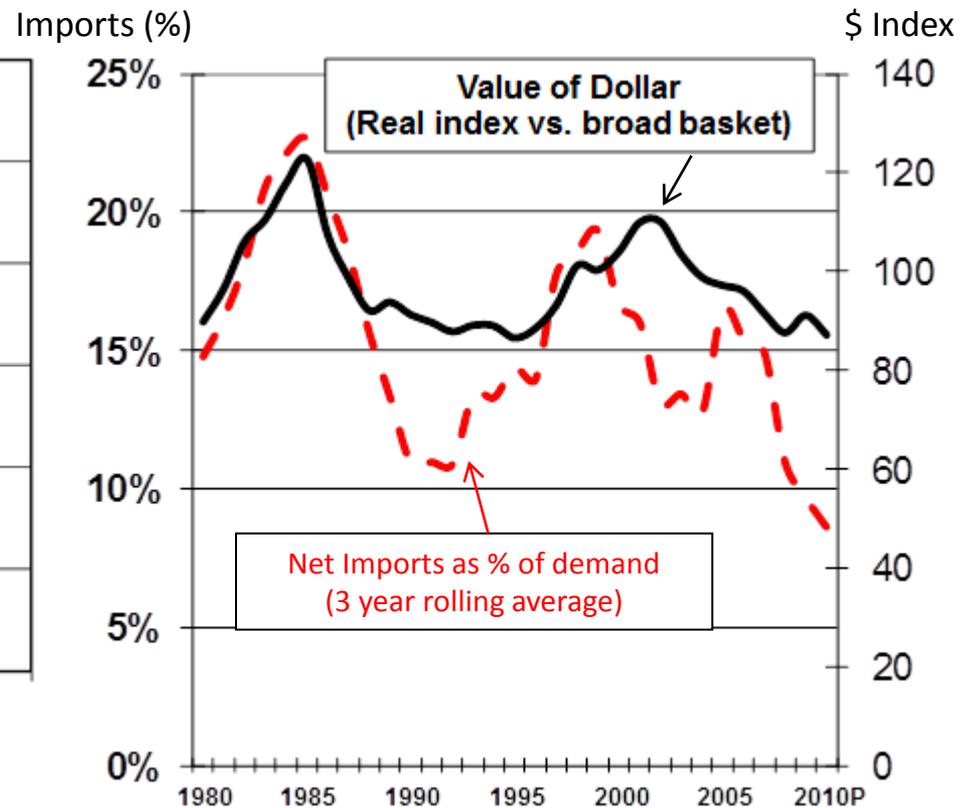


US net imports expected to remain lower

US Imports & Exports
(Million Tons)



Net Imports & US Dollar



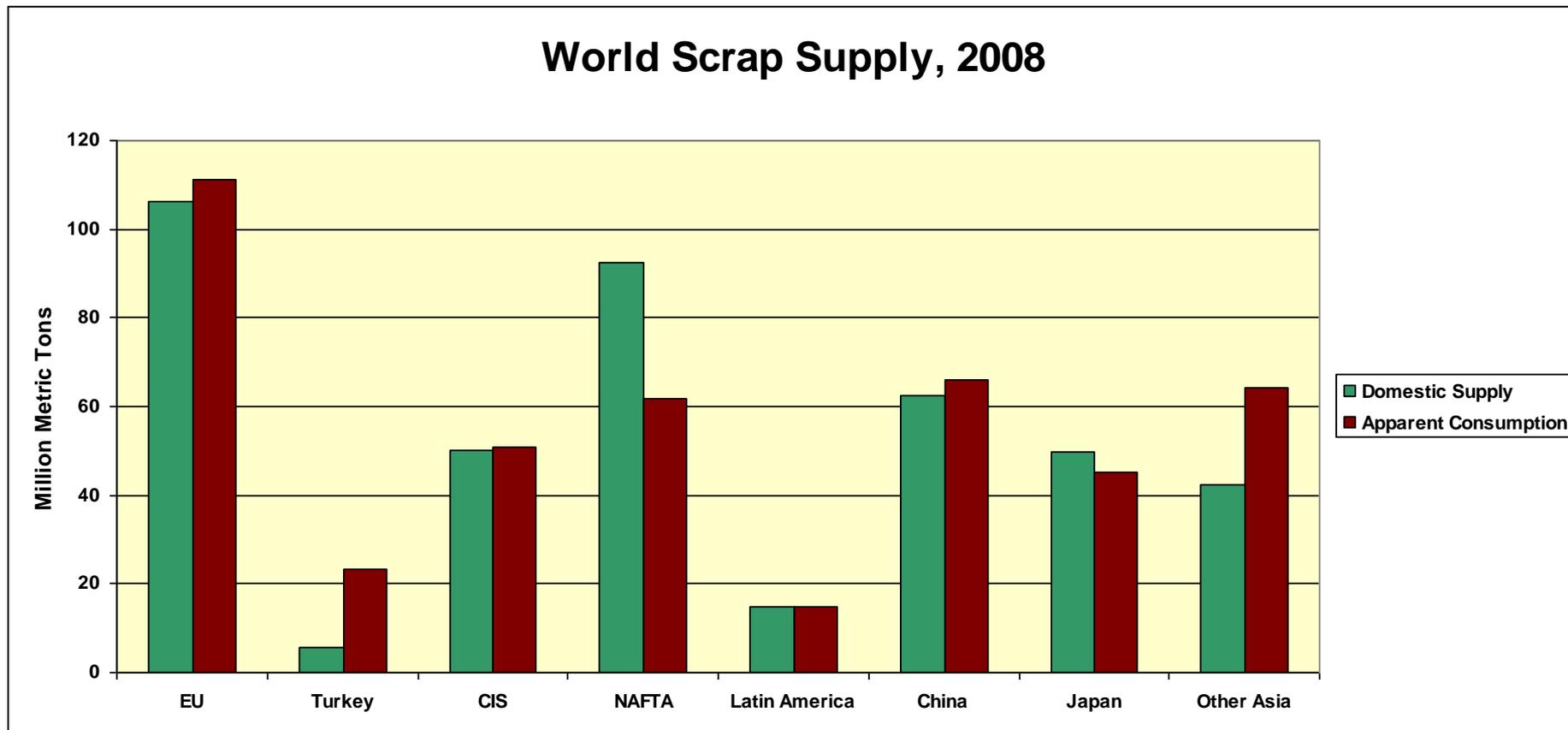
Source: AISI, First River

- Recovery underway, but slow
- Increased exports and imports (*5mmt of semi's imports*) YOY
- Not normal cycle of recession, overcapacity
- Relative strong demand in auto; construction lagging

Raw Material Cost and Availability is #1 Issue for NAFTA Producers

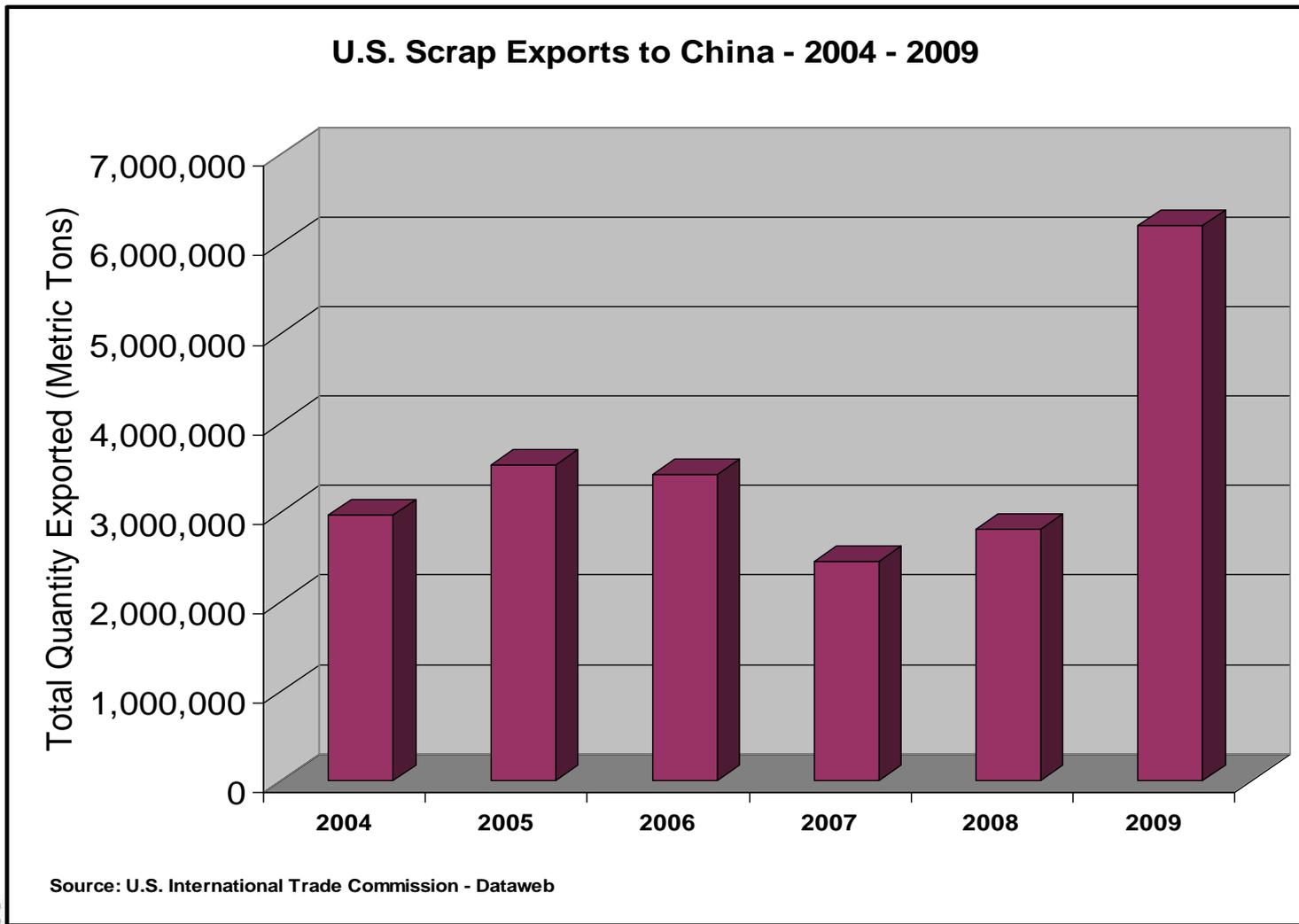
- Many countries continue to impose a variety of restrictions on exports of vital raw materials
 - Export prohibitions
 - Export duties
 - Export quotas
 - Other measures
- Trade-distorting restrictions on exports of raw materials
 - Give domestic producers in the exporting country an unfair advantage
 - Increase worldwide costs of production
 - Place a heavy burden on steel industries in developing countries that do not have substantial iron ore reserves or steel scrap supplies

World Scrap Supply and Consumption, By Region



Source: World Steel Association

While China Restricts Exports of Scrap, U.S. Exports to China Have Surged



What does the U.S. need to do?

- Assume a Pro-Manufacturing Agenda
 - Business Tax Reform
 - Border Adjustable Taxes
 - Currency Adjustments
 - Energy Independence
 - Reasonable regulatory measures (Environment/Labor)
 - Climate for investments (Jobs, Jobs, Jobs) and Infrastructure
- Solve the structural problems that caused the recession - Real Foundation
 - Bad loans and securities on bank balance sheets
 - Reduce huge trade deficits
- Policy incrementalism is not sufficient

- Ultimately, the world needs greater total supply of scrap and steel
- U.S. is in a **traffic jam**, moving slightly forward, but don't know other consequences. Don't look to Washington, DC for help
- Environment of uncertainty and volatility will continue in U.S. industry until economic fundamentals are in equilibrium
- In U.S., dissatisfaction/perception that U.S. Government is not tackling the right issues (i.e. "It's the economy, stupid.")
- Reasons for **optimism** in steel in U.S.:
 - **Scrap**-based, 70% of cost – local supply
 - **Low cost** on global basis (*energy is neutral, labor less than 10%, others have higher transportation costs*)
 - Relatively strong U.S. market and U.S. resiliency
 - Better U.S. company balance sheets
- North American Free Trade Agreement works, but **has not changed** since 1994