

North American Steel Industry NAFTA Region Update

**OECD Steel Committee/WorldSteel Association
Raw Materials Workshop
December 15-16, 2008
Kuala Lumpur, Malaysia**

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**American Iron and Steel Institute (AISI)
Steel Manufacturers Association (SMA)
Specialty Steel Industry of North America (SSINA)
Canadian Steel Producers Association (CSPA)
Mexican Steel Producers Association (CANACERO)**



Presentation Summary

- 1. NAFTA Steel Market Conditions**
 - A. Significant Decline in Steel and Major End-Use Markets**
 - B. Growing Trade Concerns**
- 2. North America is a Major Producer, Consumer and Trader of Raw Materials**
- 3. Key Concerns About Raw Materials: Trade and Investment Barriers**
- 4. Key Policy Conclusions**





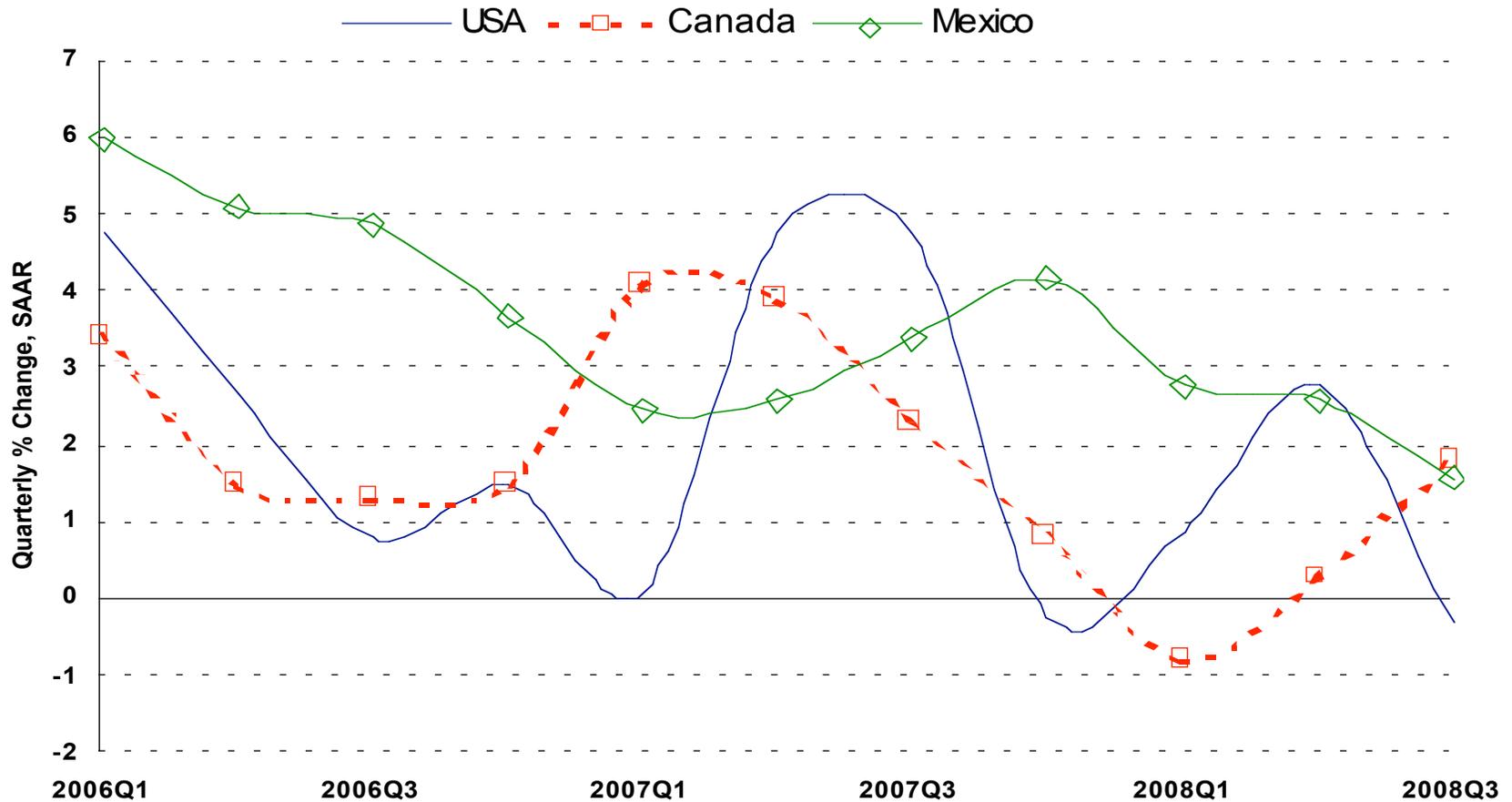
1. NAFTA Steel Market Conditions – Part A: Significant Decline in Steel and Major End-Use Markets





NAFTA Economic Growth Is Decelerating

NAFTA Real GDP Since 2006





The United States Is in a Recession

- **National Bureau of Economic Research: U.S. economy in recession since December 2007**
- **Factors:**
 - Labor market
 - Real personal income
 - Industrial production
 - Wholesale & retail sales
 - Housing and related financial crisis
- **The U.S. economy is in uncharted territory and in a period of unprecedented uncertainty**

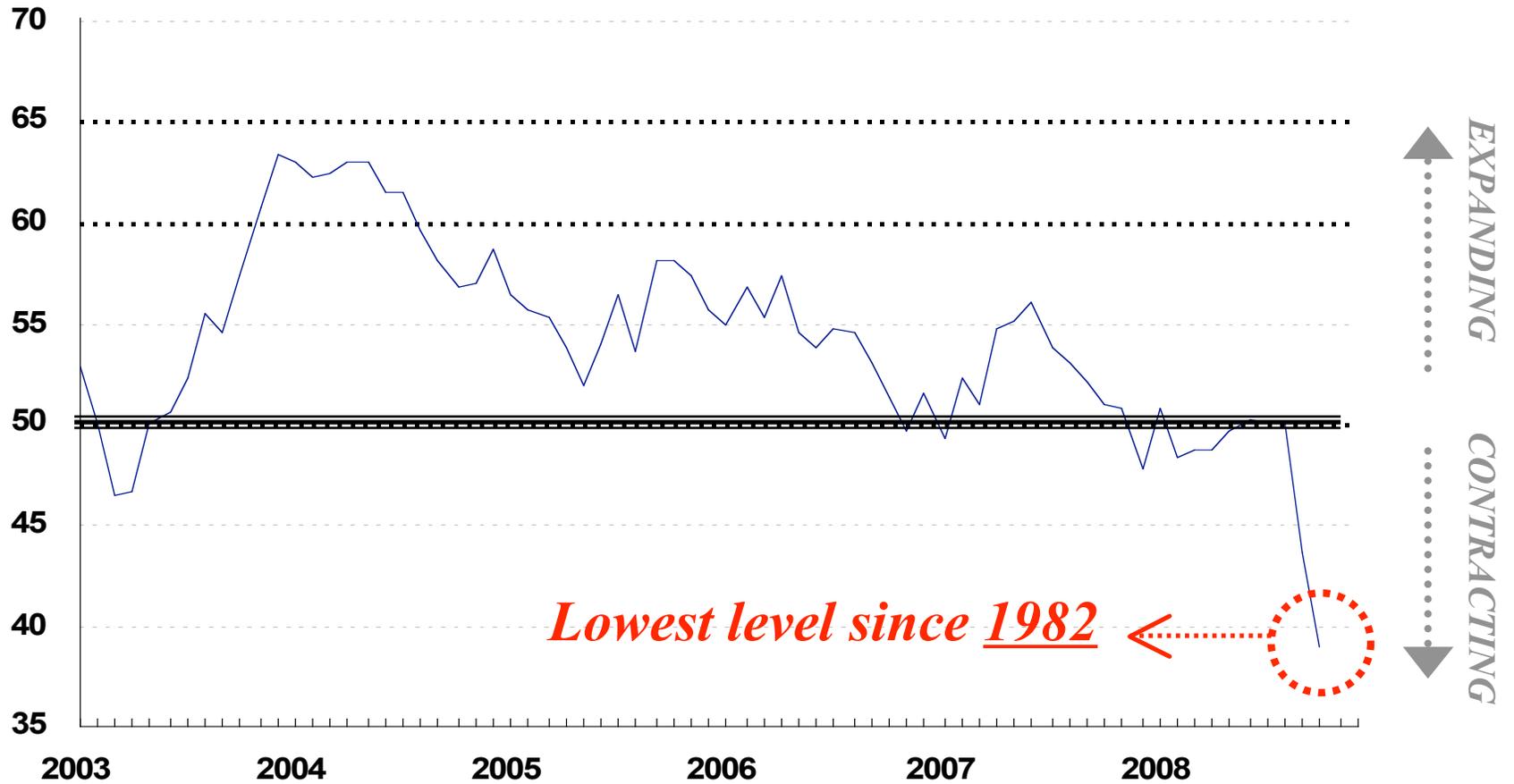
Source: Federal Reserve Board





U.S. Business Activity Is Falling Sharply

U.S. Purchasing Managers Index (PMI) Since 2003

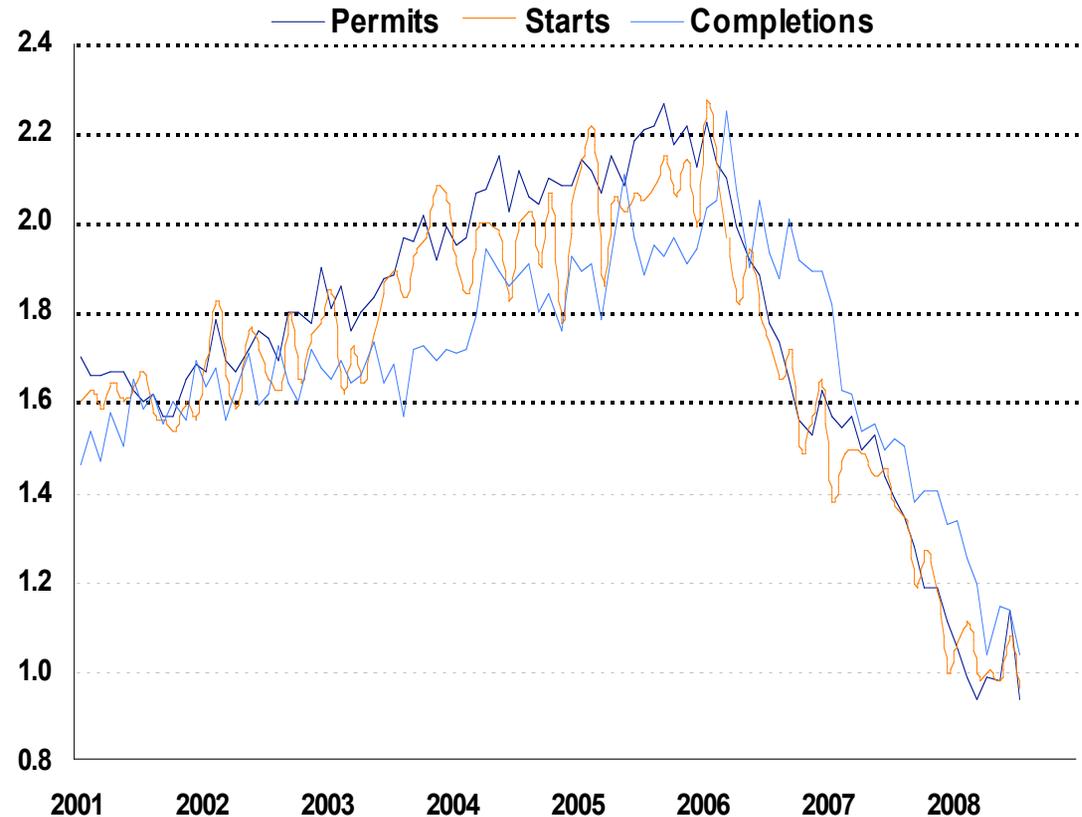




The U.S. Housing Market Is Plummeting

- **Lowest level since 1991**
- **Housing market and home values continued to slide in 2008**
- **Inventory of unsold homes is at 11 months (vs. less than 4 months normally)**
- **Residential construction activity 500,000 units below historical levels**
- **Roughly 10 percent of mortgages are in foreclosure or in default**
- **Not yet clear that the housing market has hit bottom**

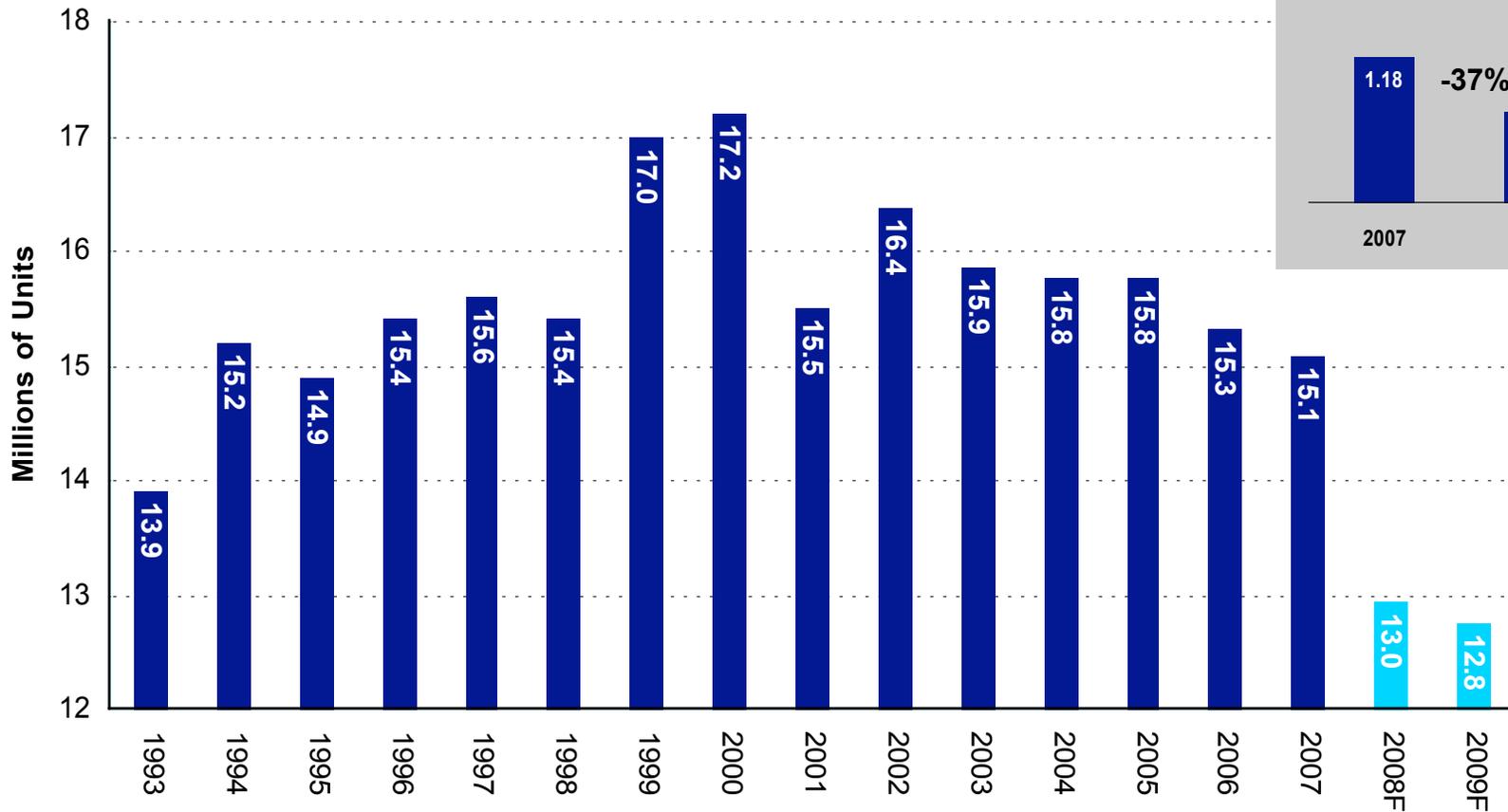
U.S. Residential Construction Market



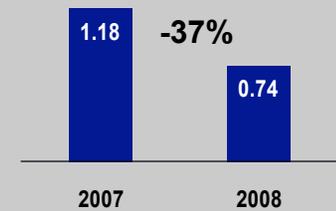


NAFTA Automotive Market Is In Crisis

NAFTA Light Vehicle Production 1993-2009

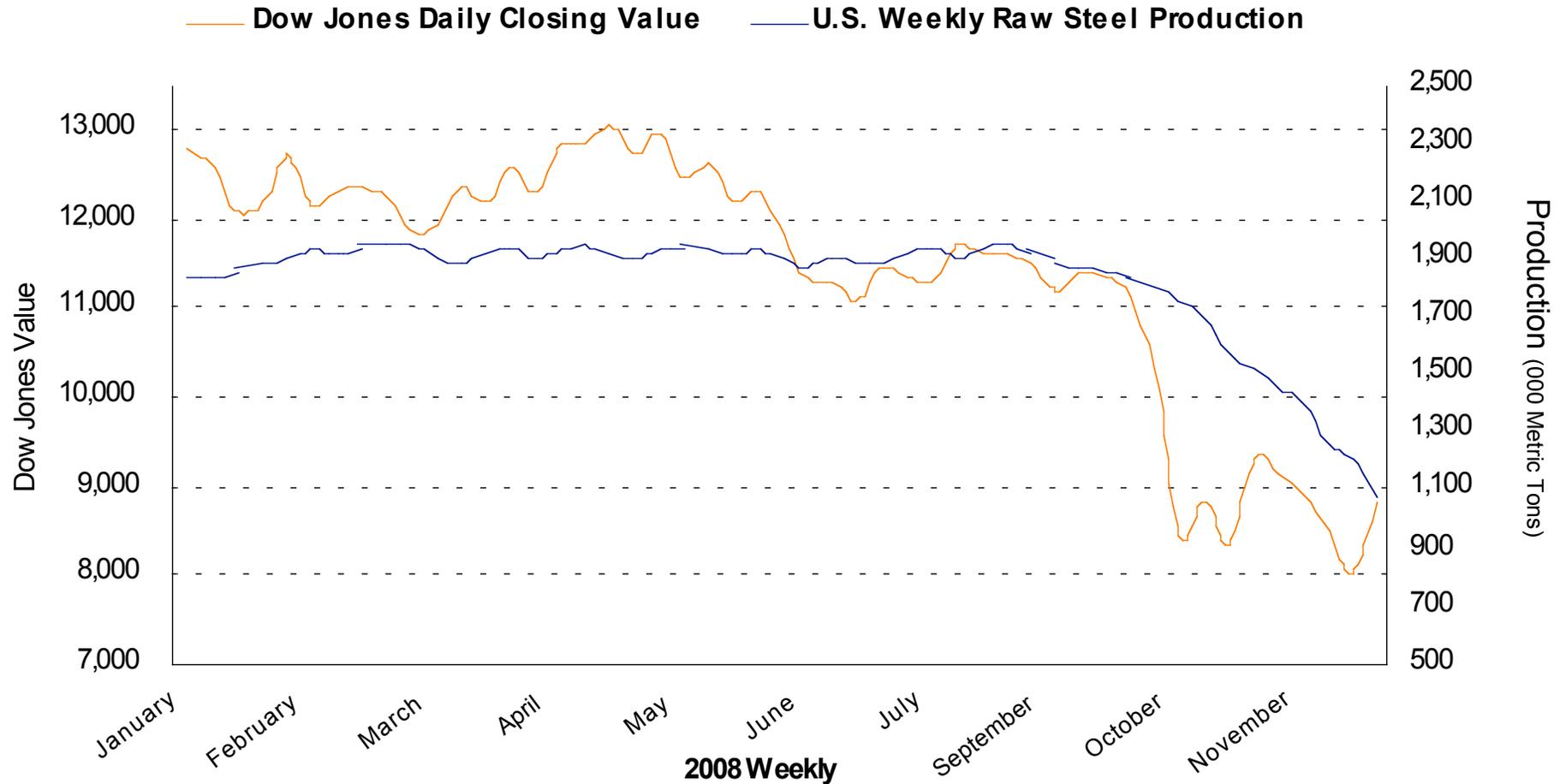


U.S. Light Vehicle Sales November 2007 vs November 2008





U.S. Steel Production Has Declined Dramatically, Following Both Wall Street And The Real Economy



Source: Dow Jones Industrial Index, AISI





Canada: Economic Conditions Are Deteriorating

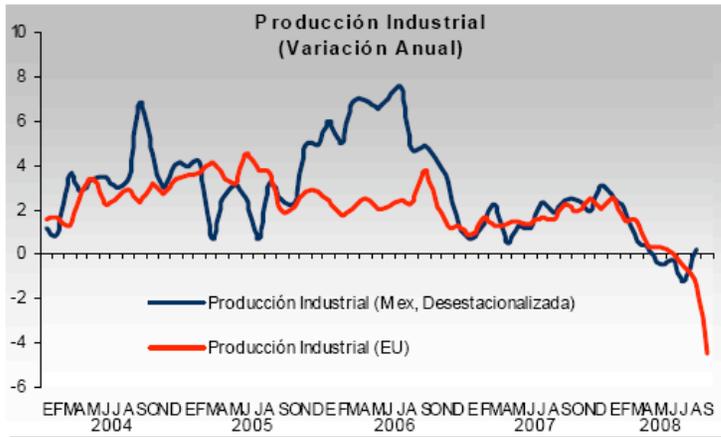
- 3Q08 indicators suggest growing economic challenges in the months ahead
- 3Q08 real GDP growth of +1.3%, but:
 - September GDP growth only +0.1%
 - Business inventories up +12%, masking other concerns
 - Final domestic demand only +0.6%, worst quarter since 1995
 - Consumer spending slowed to +0.7%, lowest level since 2001
 - Exports down -5.4%, fifth straight quarterly decline
 - Real disposable income grew only +0.1%



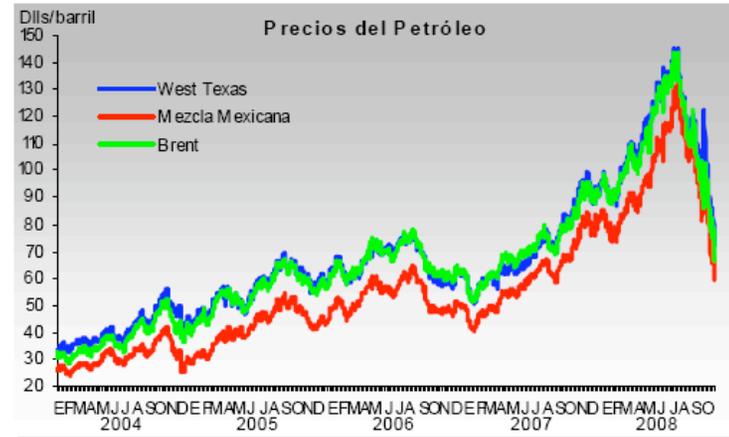


Mexico: All Indicators Show A Drastic Change

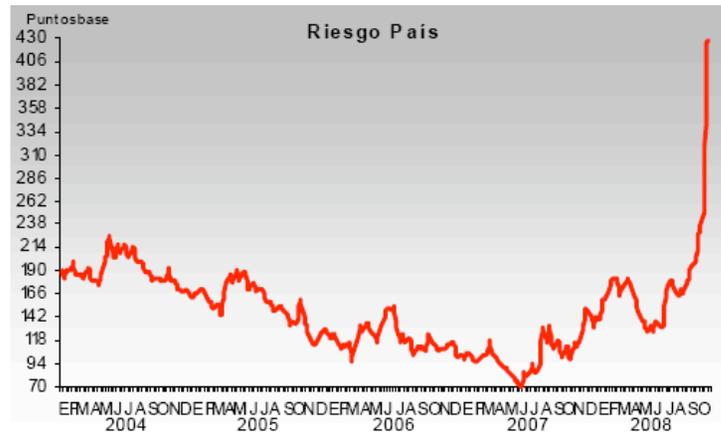
Industrial Production: Mex & US



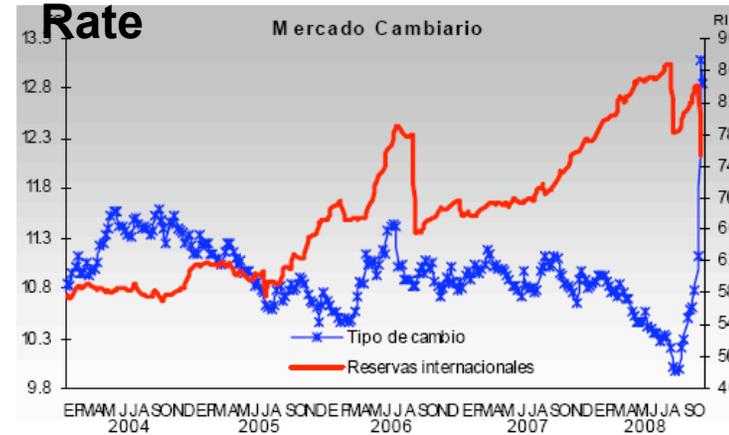
Oil export prices



Risk: Restrictions to Credit



Reserves and Exchange Rate





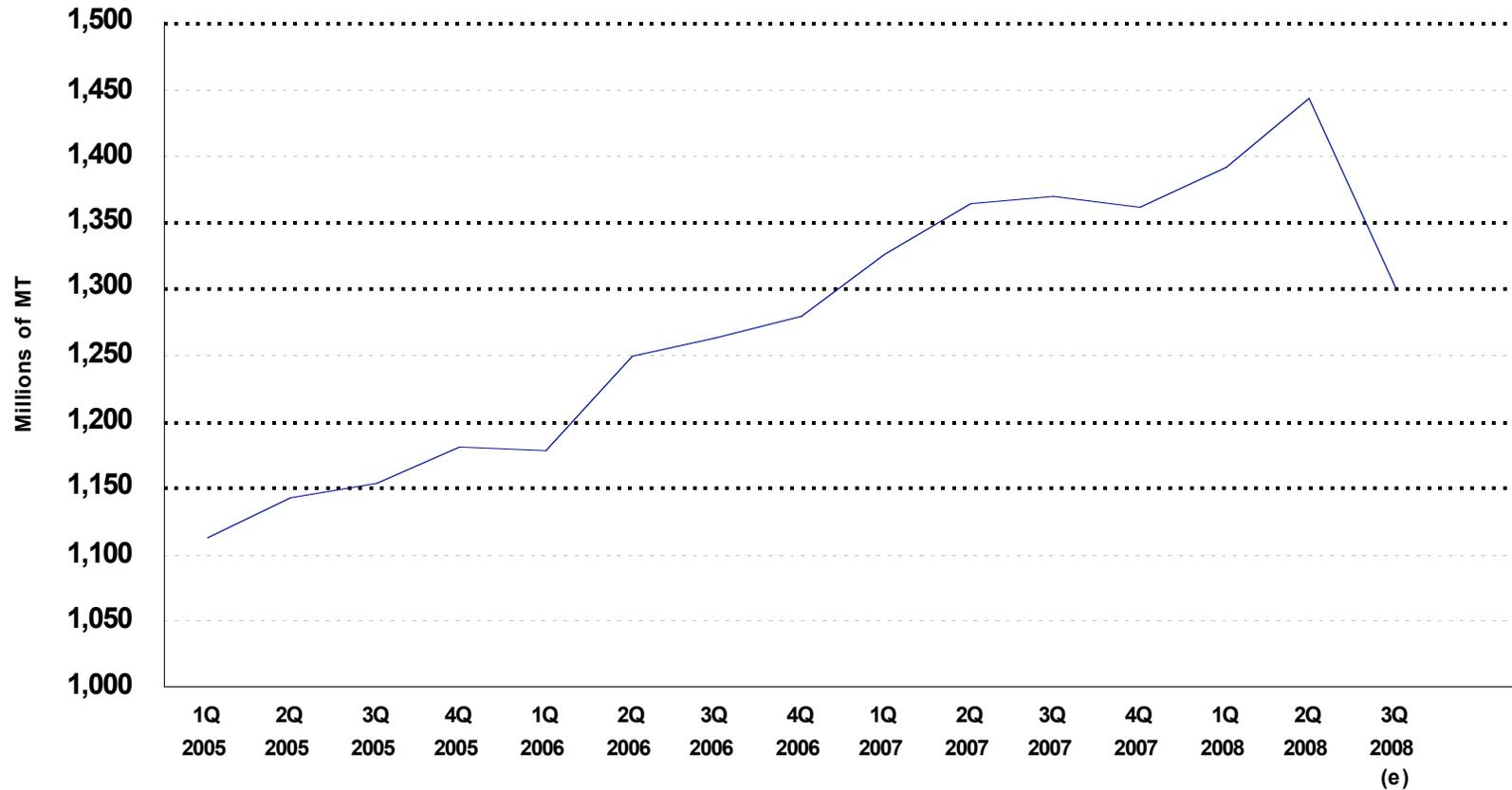
1. NAFTA Steel Market Conditions – Part B: Growing Trade Concerns





Global Steel Consumption Is No Longer Growing

Global Apparent Steel Consumption (Annualized)



Source: World Steel Dynamics, "Global Alert # 31" (Oct. 1, 2008) at 12.

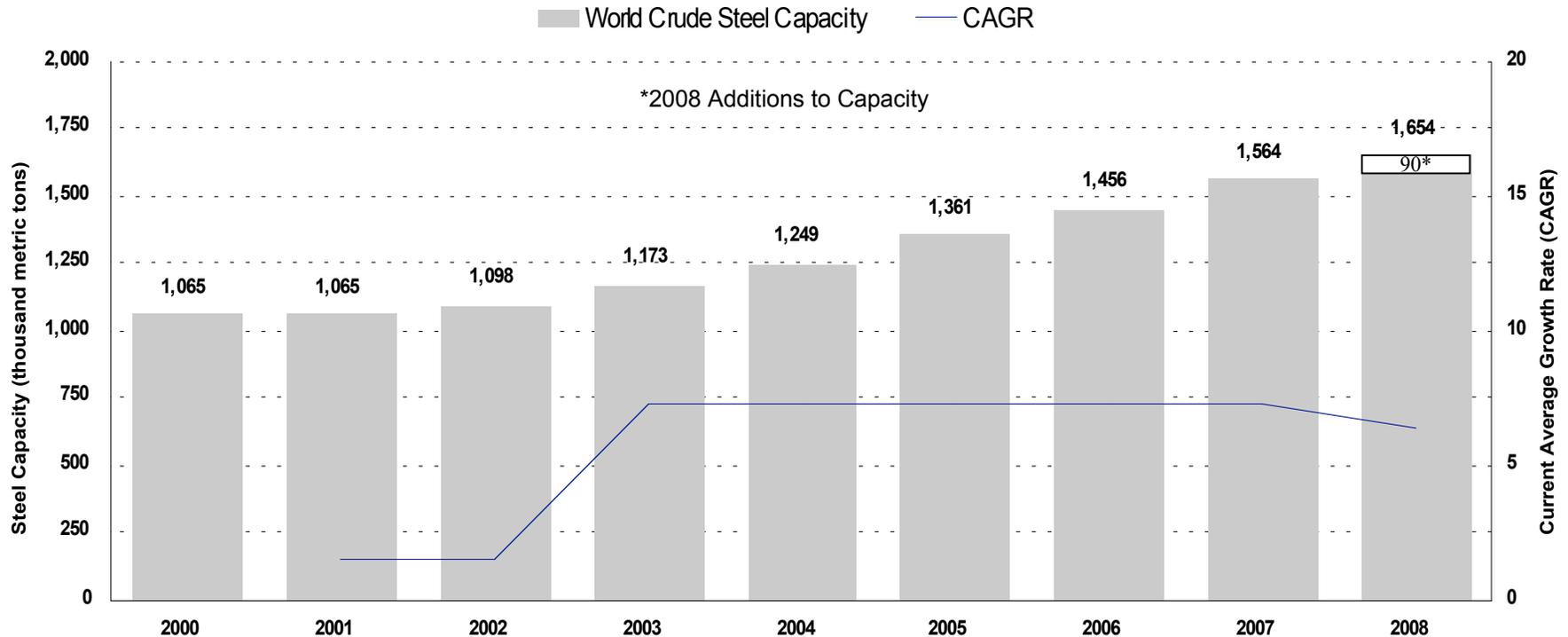




Global Steel Capacity Through 2008

World Steel Capacity Grew by Over 50% in the Past Eight Years

World Crude Steel Capacity 2000-2008



Source: German Steel Federation and IISI verifications





NAFTA Steel: Positioned To Compete

- During the crisis of 1998-2003, the NAFTA steel industry strengthened from within through extensive consolidation, restructuring and capital investment
- The new business model that emerged is one that enables us to compete effectively with fairly traded steel in the global marketplace
- When conditions do start to improve, and with pro-competitive policies (e.g., on climate change), the North American steel industry is positioned to participate in the recovery





China Now A Massive Net Exporter Of Steel

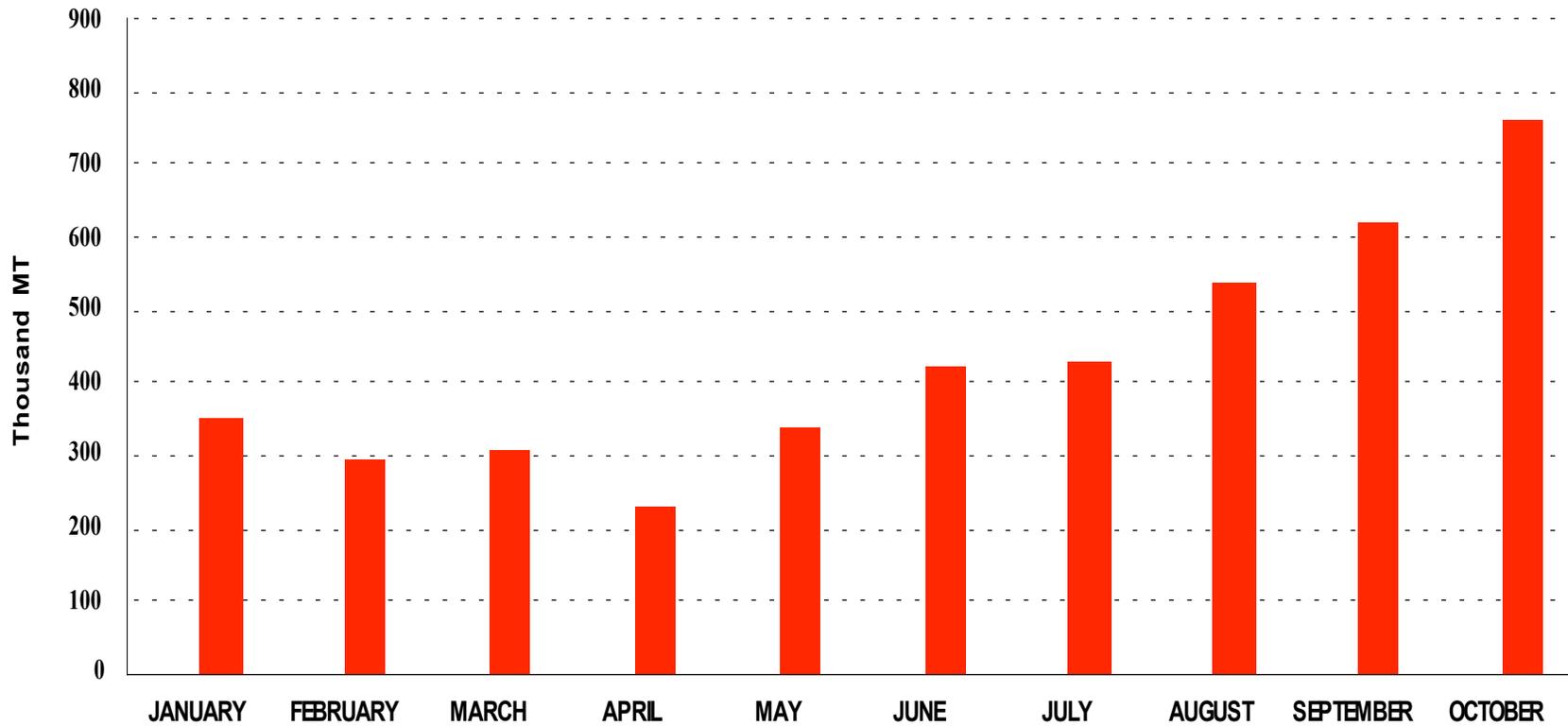
China's Net Exports of Finished Steel Products, 2000-2007





NAFTA Imports From China Are Rising...

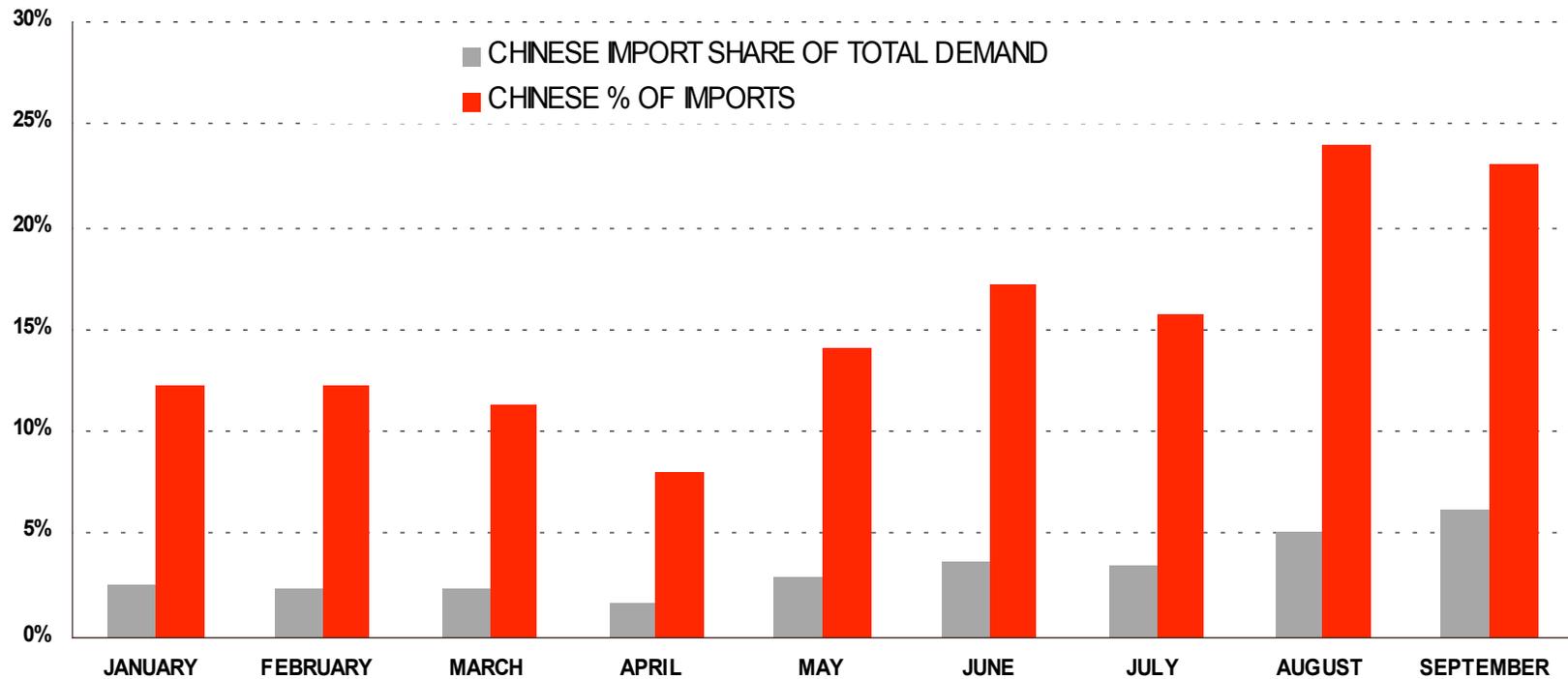
Chinese Imports to NAFTA Countries 2008 - Monthly





... While Chinese Import Share Is Increasing

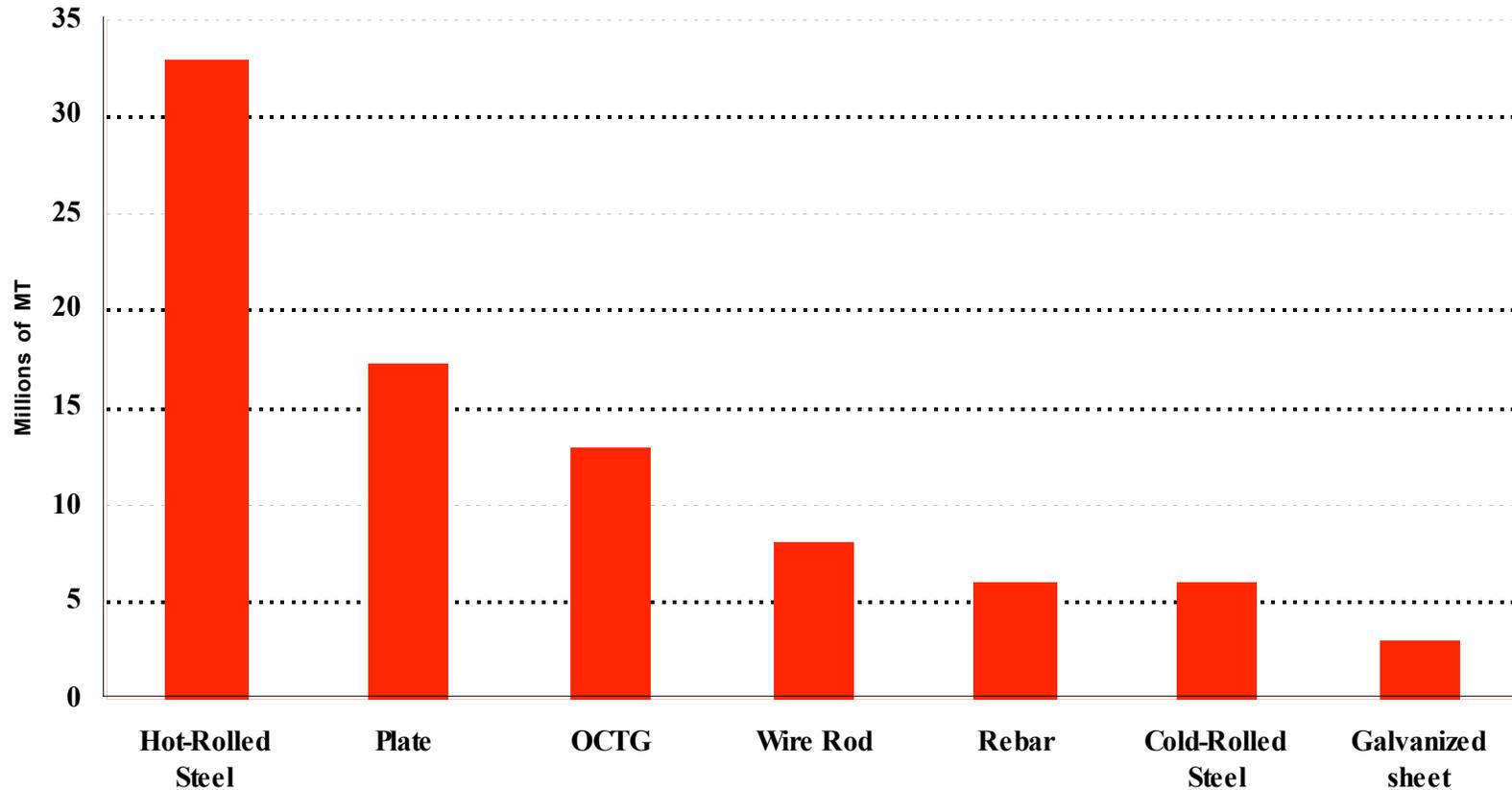
Chinese Import Share of U.S. Apparent Supply - 2008





Chinese Capacity Exceeds Demand In Key Products

2008 Difference Between Chinese Capacity and Chinese Demand



Source: World Steel Dynamics, "Global Steel Alert # 31" (Oct. 1, 2008) at 17, 25.





NAFTA Imports From Other Sources Have Risen

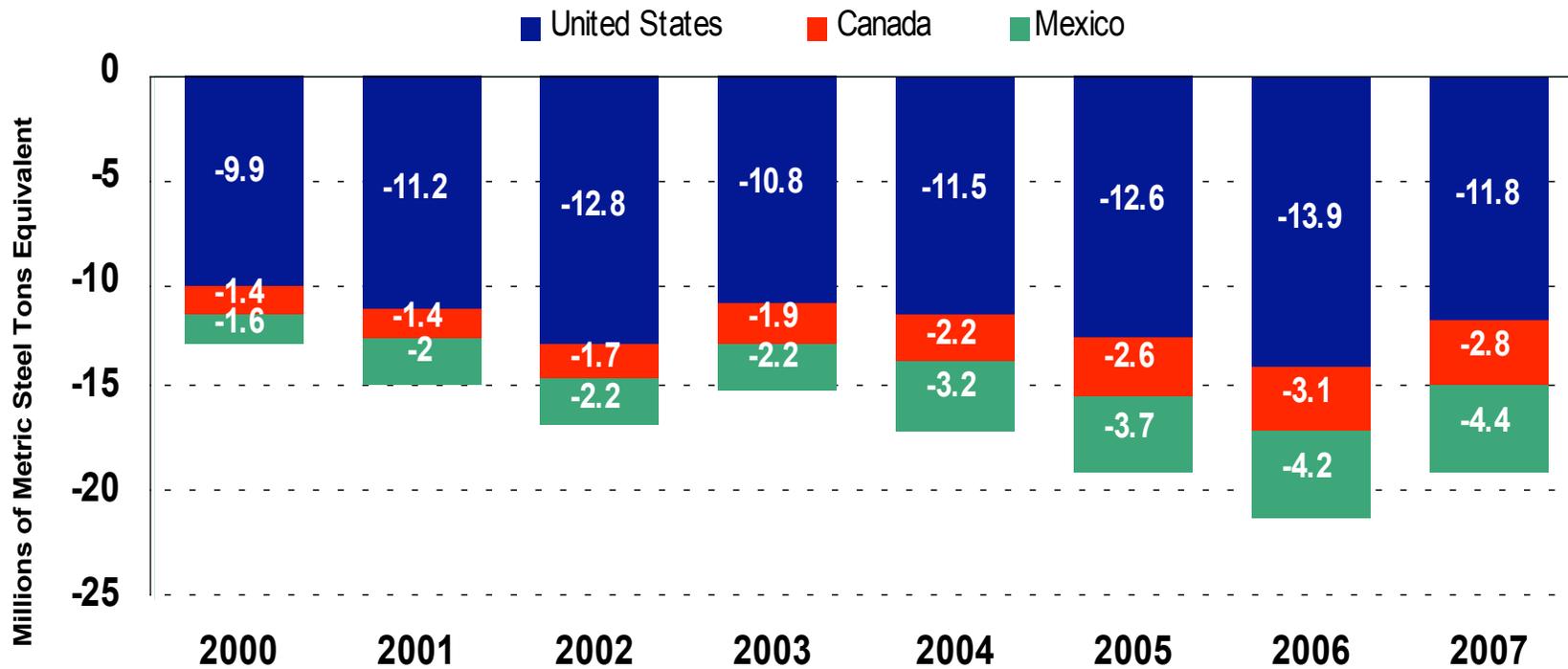
| Source | 2003 Imports (NT) | 2007 Imports (NT) | Increase (%) |
|---------|-------------------|-------------------|--------------|
| Korea | 1,692,436 | 2,616,128 | 54.6 |
| Ukraine | 163,706 | 1,333,197 | 714.4 |
| Russia | 592,311 | 1,304,387 | 120.3 |
| India | 434,677 | 873,255 | 100.9 |





NAFTA Manufacturers Face Intense Import Competition

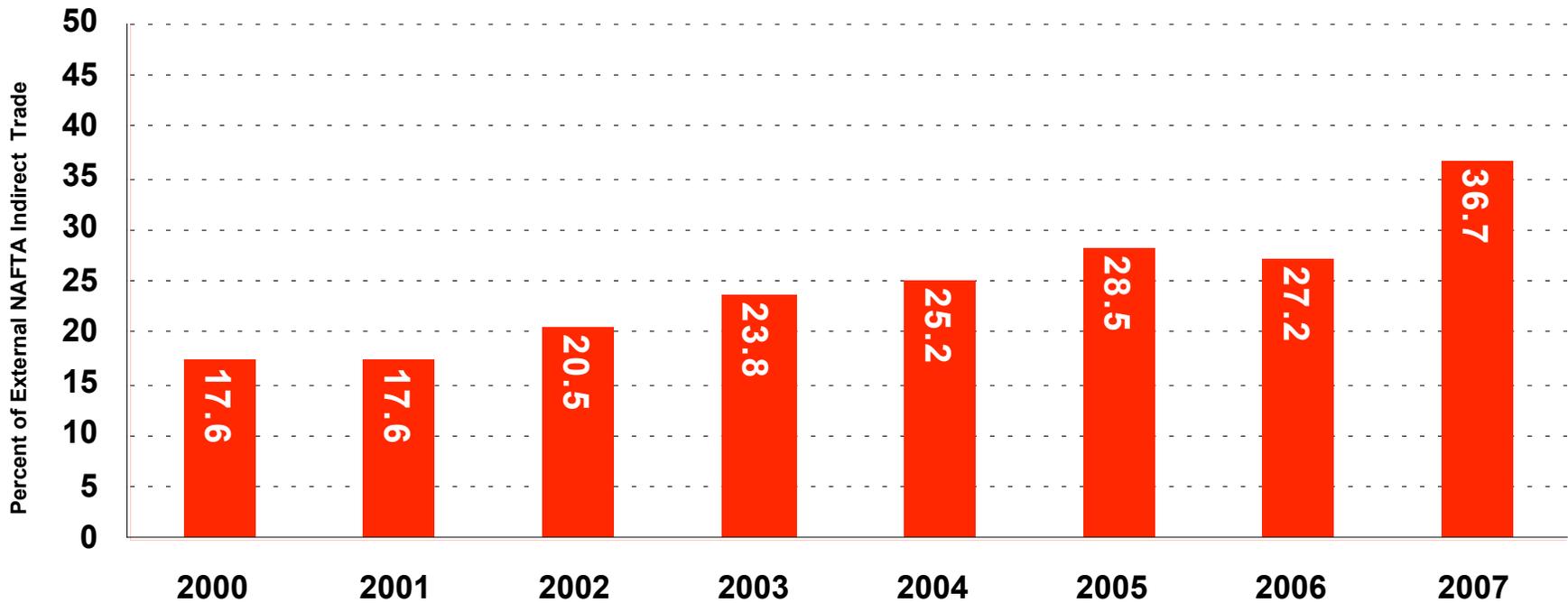
NAFTA Indirect Steel Trade Balance with Rest of World (excluding intra-NAFTA trade) 2000 - 2007





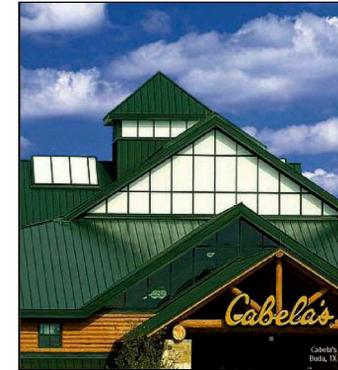
China Also Driving NAFTA Indirect Steel Trade Deficit

NAFTA Indirect Steel Trade Balance with China Percent of Total External NAFTA Trade Deficit 2000 - 2007





A Constructive Response to the Economic Crisis: Steel Market Development in the Home Market





Critical Trade Messages

Recognizing the seriousness of the economic downturn and the need to avoid a recurrence of prior steel crises:

- Strong and effective enforcement of trade laws throughout the NAFTA region
- A more effective approach to dealing with global market-distorting practices
- Policies that will reduce the North American indirect steel trade deficit





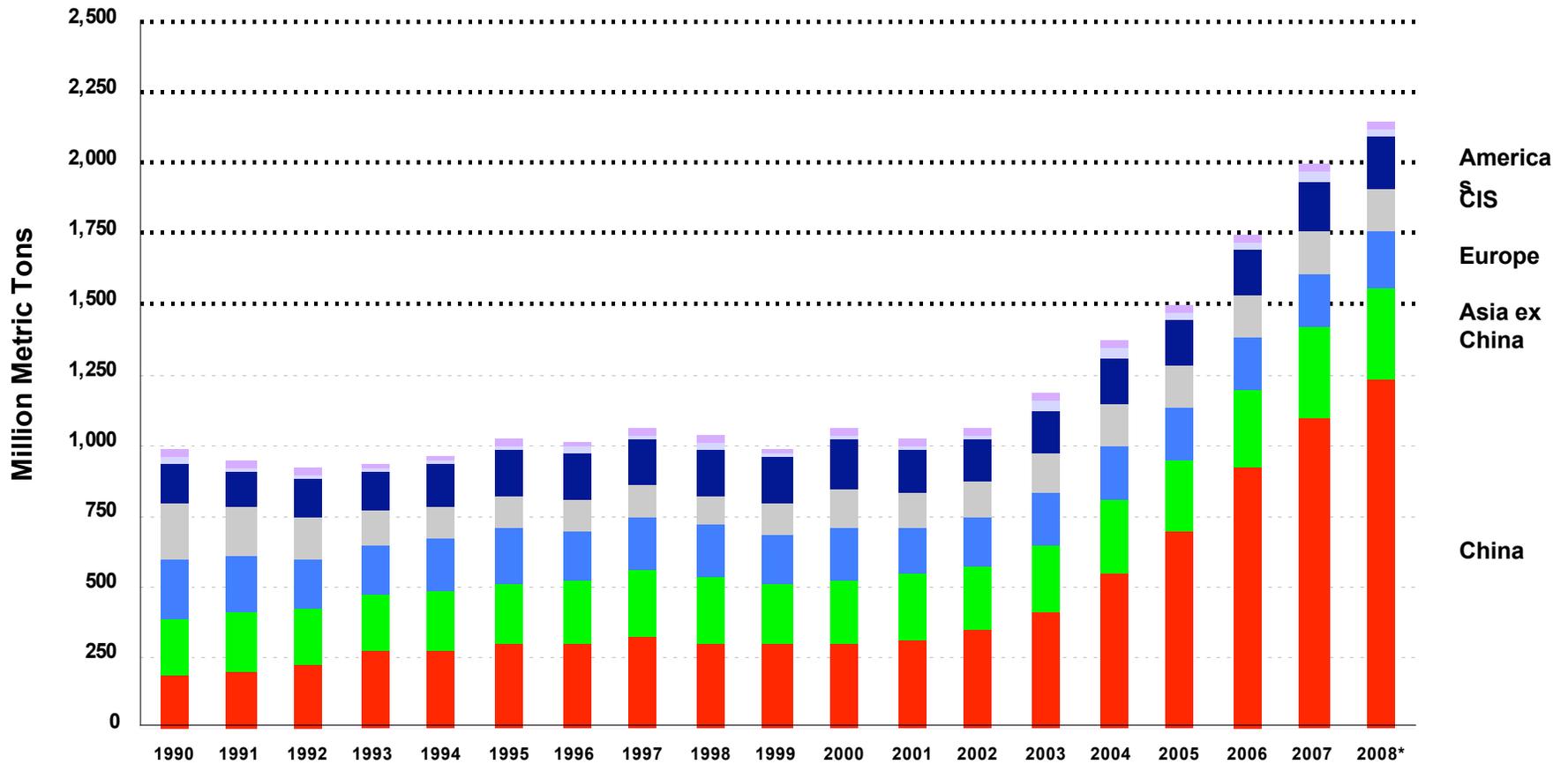
2. North America Is A Major Producer, Consumer And Trader Of Raw Materials





Global Iron Ore Consumption Has Increased Significantly

Global Iron Ore Consumption 1990-2008



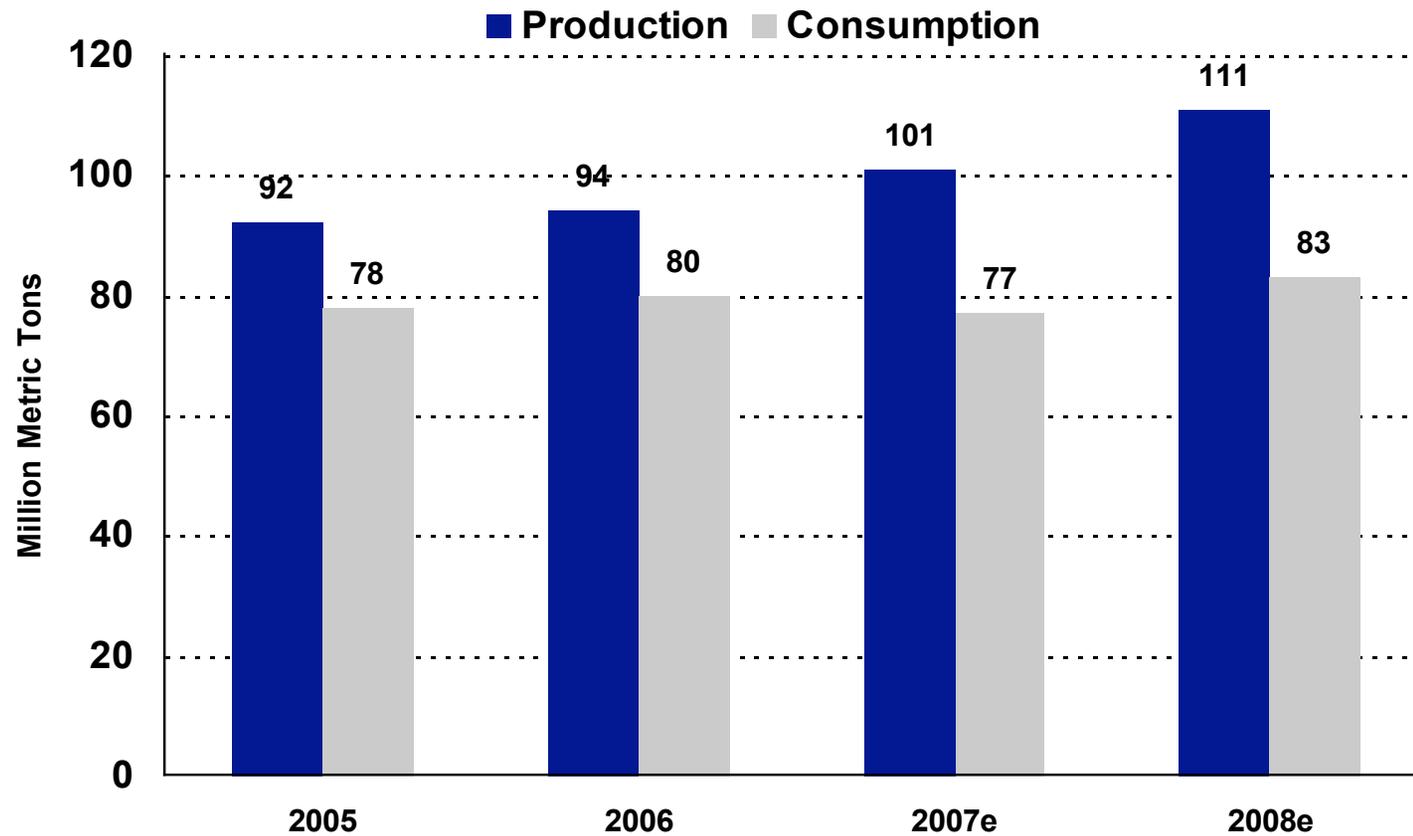
Sources: AME, UNCTAD, IISI. *2008 data is annualized.





NAFTA Is A Net Exporter Of Iron Ore...

NAFTA Iron Ore Production And Consumption, 2005-2008



Source: Lehman Brothers, April 2008.

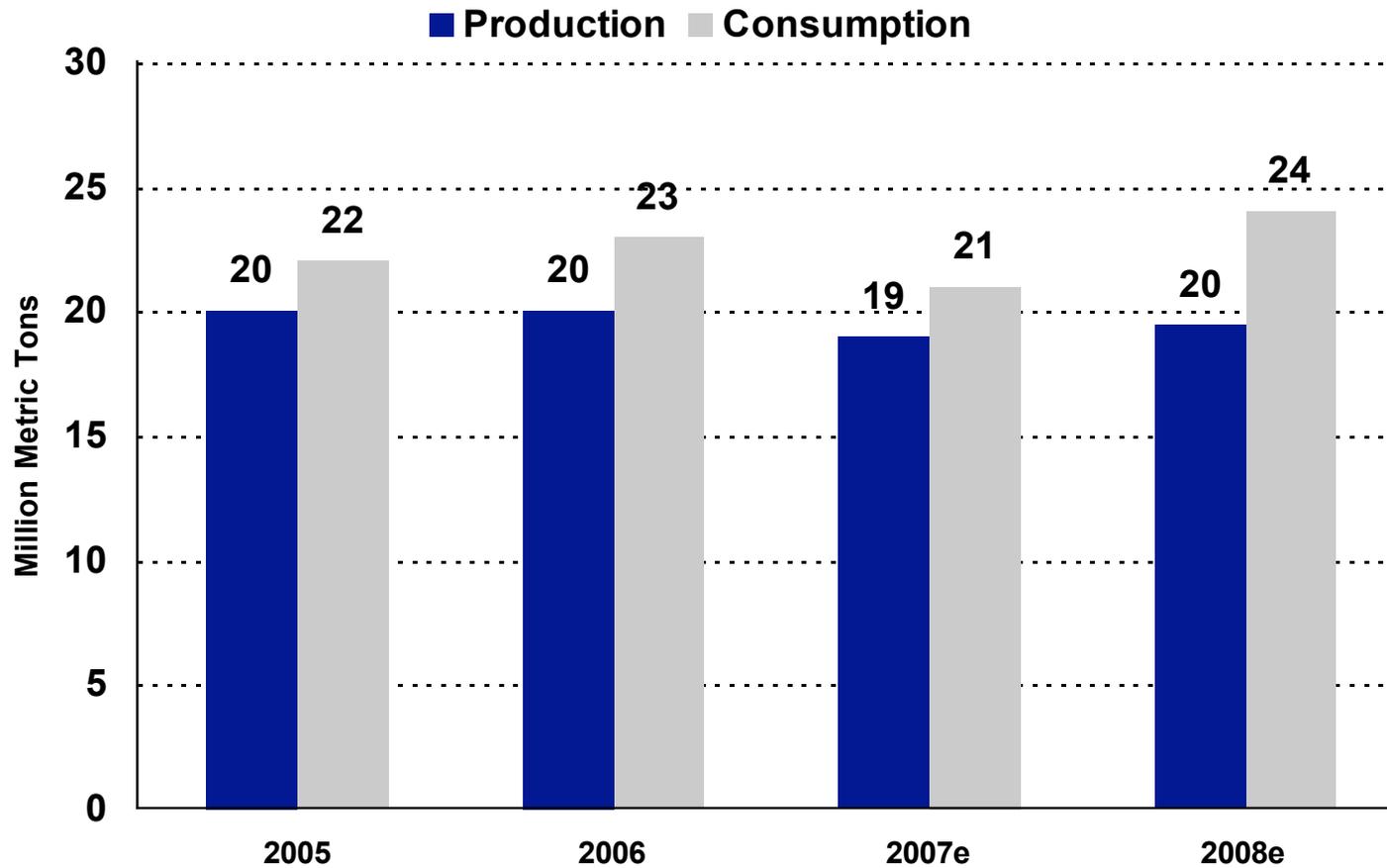
Mexico data from Mexico Raw-Materials_P-M-X-CNA_2000-2008.





...And A Slight Net Importer Of Coke

NAFTA Coke Production And Consumption, 2005-2008



Sources: EIA, Resource-Net, Canadian Minerals Yearbook, Statistics Canada.

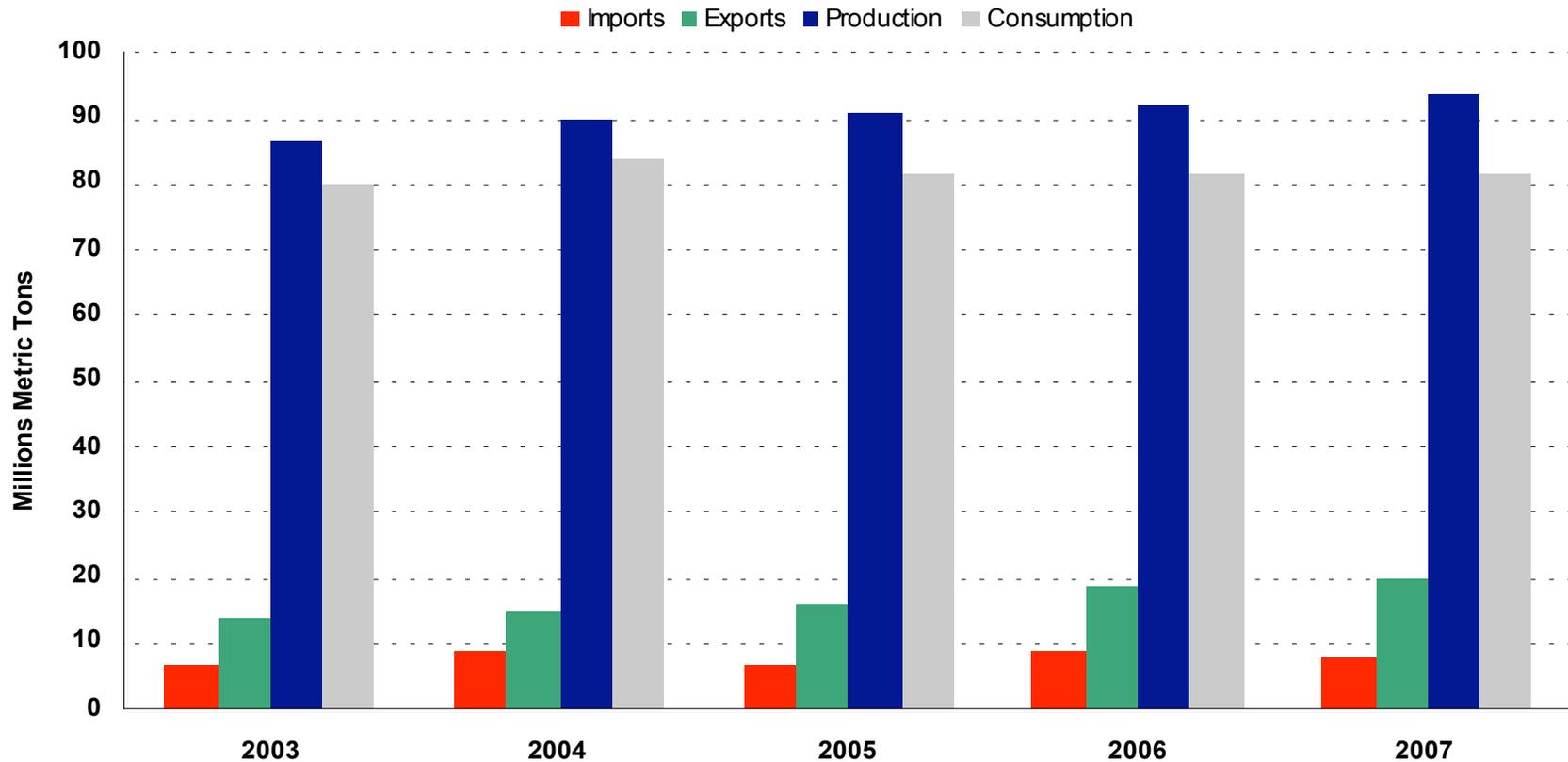
Mexico data from Mexico Raw-Materials_P-M-X-CNA_2000-2008.





NAFTA Scrap Market Summary

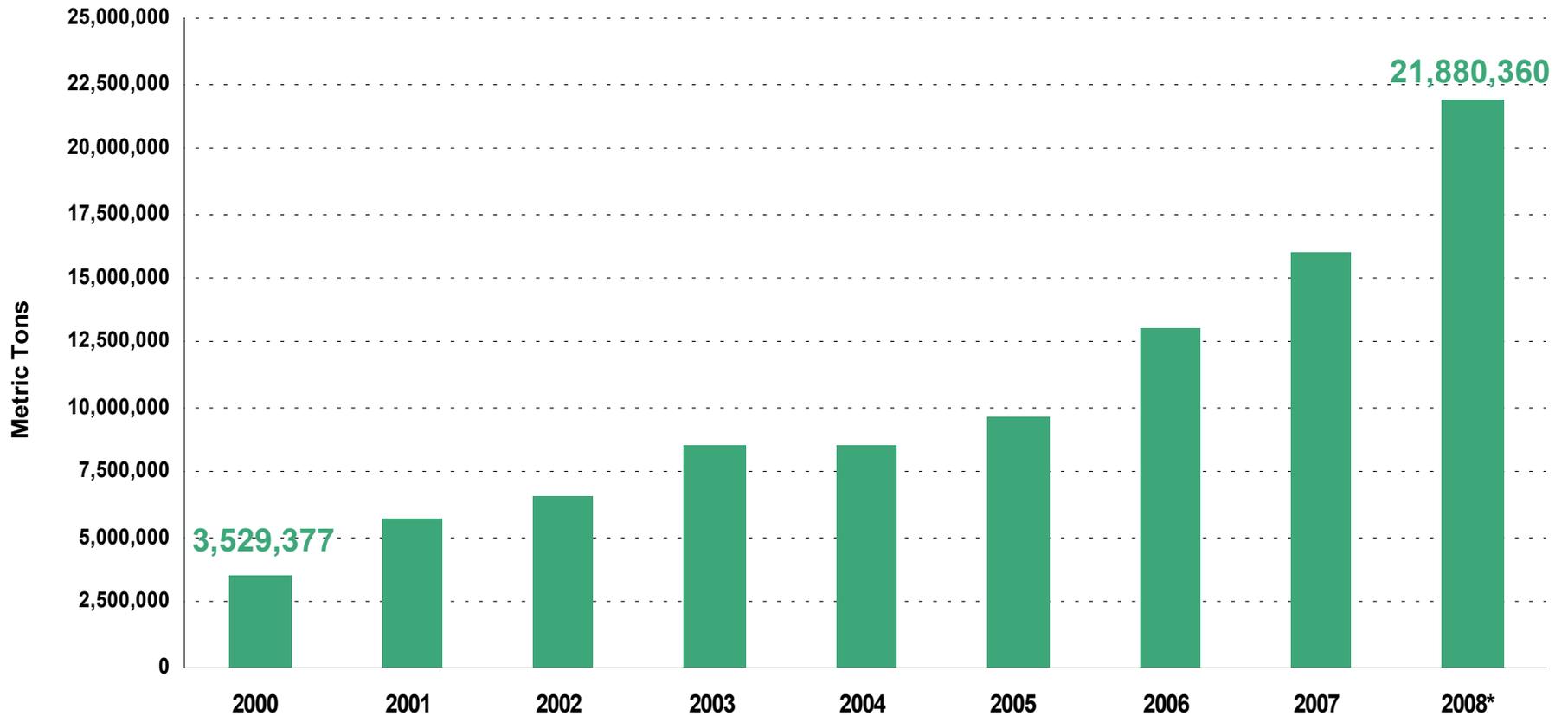
NAFTA Scrap Profile 2003-2007





NAFTA Scrap Exports Have Increased Dramatically

NAFTA External Exports of Scrap 2000-2008



Sources: US Department of Commerce, World Trade Atlas.
*2008 Annualized based on 9 months.





3. Key Concerns About Raw Materials: Trade And Investment Barriers





Raw Materials Supplying Nations Are Highly Concentrated

Selected Raw Materials Global Production % Share

| Metal | First | % | Second | % | Third | % | Σ |
|--------------|--------------|----------|---------------|----------|--------------|----------|----------|
| Iron ore | Brazil | 22 | Australia | 21 | China | 15 | 58 |
| Chromium | South Africa | 41 | Kazakhstan | 27 | India | 8 | 76 |
| Manganese | China | 21 | Gabon | 20 | Australia | 16 | 57 |
| Molybdenum | U.S.A. | 34 | China | 23 | Chile | 22 | 79 |
| Nickel | Russia | 19 | Canada | 16 | Australia | 13 | 48 |
| Niobium | Brazil | 90 | Canada | 9 | Australia | 1 | 100 |
| Rare earths | China | 95 | U.S.A. | 2 | India | 2 | 99 |
| Tantalum | Australia | 60 | Brazil | 18 | Mozambique | 5 | 83 |
| Tungsten | China | 84 | Canada | 4 | E.U. | 4 | 92 |
| Vanadium | South Africa | 45 | China | 38 | Russia | 12 | 95 |





Export Barriers Of Concern

- Countries worldwide have enacted substantial export barriers:
 - Export taxes of 25-50%, duties ranging from 5-15%
 - At least six countries have temporarily or permanently banned the export of steel scrap
 - Use of export quotas expanding and growing more restrictive
 - Licenses – costly, facilitate government control
- Harmful impacts of export barriers:
 - Shield domestic industries from global competition
 - Act as subsidies for domestic producers
 - Contribute to “hoarding” raw materials for domestic use, while distorting global markets for producers everywhere





Select Raw Material Export Restrictions

| Raw Material | Country |
|---|-----------------|
| Coke | China, Ukraine |
| Ferrous alloys of chromium, nickel, molybdenum and tungsten | China |
| Ferrous scrap | Russia, Ukraine |
| Iron ore | India |
| Manganese | China |
| Molybdenum | China |
| Nickel | China |
| Rare earth elements | China |
| Tungsten | China |





Raw Materials Investment Barriers

- Several countries have erected barriers to foreign investment in raw materials:
 - Outright bans of foreign entities from mining
 - Preventing certain companies from having an ownership interest in mining entities
- Harmful impact of investment barriers:
 - May benefit domestic industries / “national champions” only
 - May prevent foreign companies from further developing raw materials in these countries





Subsidized Raw Materials Acquisitions

- While restricting foreign investment, some governments are using public resources to target overseas markets
 - State-owned enterprises, state-owned banks
 - Sovereign wealth funds
- Potential harmful effects of subsidies:
 - May benefit domestic industries / “national champions” only
 - May distort global raw materials trade in favor of subsidizing countries





Summary: Raw Materials Trade Barriers Impact

- Distort trade and market outcomes
- Raise costs for material users
- Unfairly tilt the playing field throughout the global manufacturing economy
- Arguably violate WTO agreements, free trade agreements, or bilateral investment treaties





4. Key Policy Conclusions





Rules-Based Trade Is Fair Trade

- Market forces must apply for steel, raw materials and steel-containing goods
 - Dumped /subsidized imports and export/investment restrictions distort market forces
- NAFTA region at risk due to global steel market deterioration
- WTO-consistent trade law application not “protectionism”
 - Counters trade and market-distorting practices
 - Restores free market principles and ensures rules-based trade
- Lessons of 1998 steel crisis:
 - NAFTA will not be “dumping ground” for excess offshore steel
 - Urge NAFTA governments to remain vigilant and firmly committed to strong trade laws, strictly enforced





Market Principles For Raw Materials

- Government interference in raw materials trade and investment is a growing source of steel trade distortions
- Export taxes, minimum price programs, export bans and quotas are all restrictive
 - Manipulation of export restriction regimes causes significant market uncertainty, distortions and disruptions
- Raw materials export restrictions create artificial advantages for exporting steel producers
 - Increasing domestic supply while lowering domestic prices
 - Simultaneously curbing supply and raising prices for foreign competitors
- Artificially low domestic prices for raw materials also create disadvantages for commodity producers
 - Reduces incentives for investment and modernization





Market Principles For Raw Materials

- WTO Doha “NAMA” negotiations should produce more effective rules on export manipulation
 - Address export taxes and quotas
- Import/Export licensing must be:
 - Transparent (e.g notice and public comment)
 - Non-discriminatory – use of objective criteria
- Metals/minerals investment policies should follow the Extractive Industries Transparency Initiative
- Malaysian government deserves praise for removing its steel scrap export ban
 - Malaysia and all governments should eliminate all restrictions (including duties) on raw materials exports
- “Lack of availability” no longer relevant due to global economic crisis and reduced demand
 - Now is the time to remove market access barriers

