

# **North American Steel Industry NAFTA Region Update**

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

\*

**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**

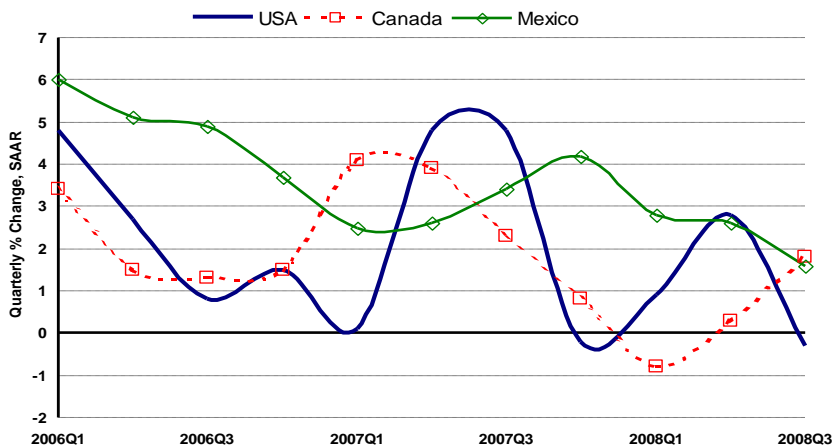


# 1. NAFTA Steel Market Conditions – Part A: Significant Decline in Steel and Major End-Use Markets



## NAFTA Economic Growth Is Decelerating

NAFTA Real GDP Since 2006

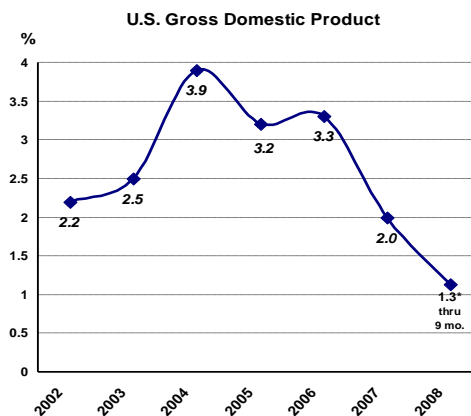


Sources: Bureau of Economic Analysis, Statistics Canada, Bloomberg



## 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

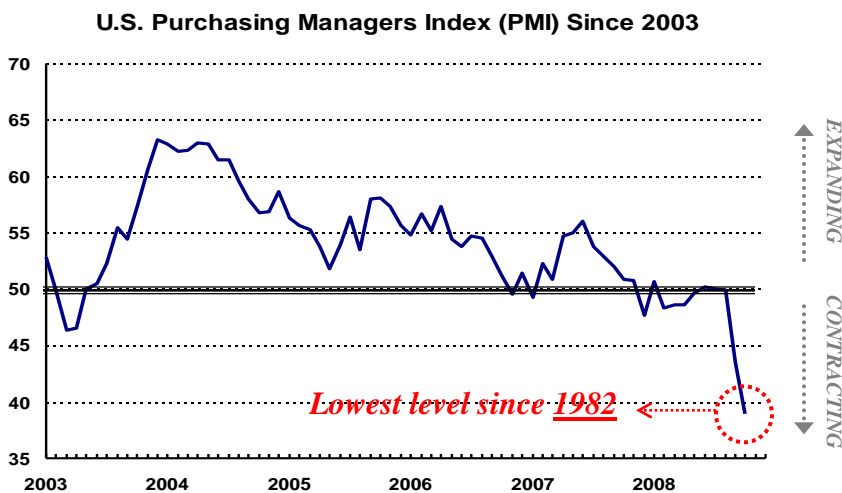


Source: Federal Reserve Board

5



## U.S. Business Activity Is Falling Sharply



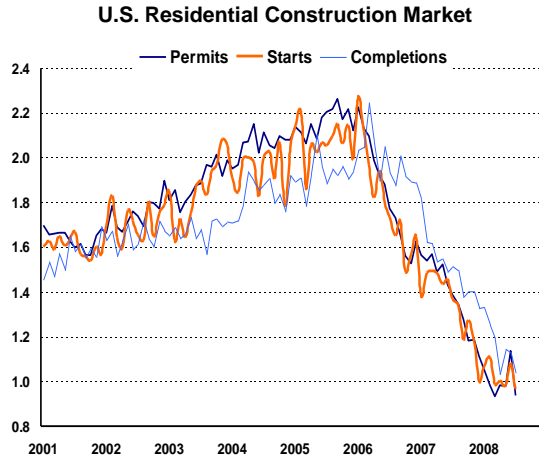
Source: ISM

6



## 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



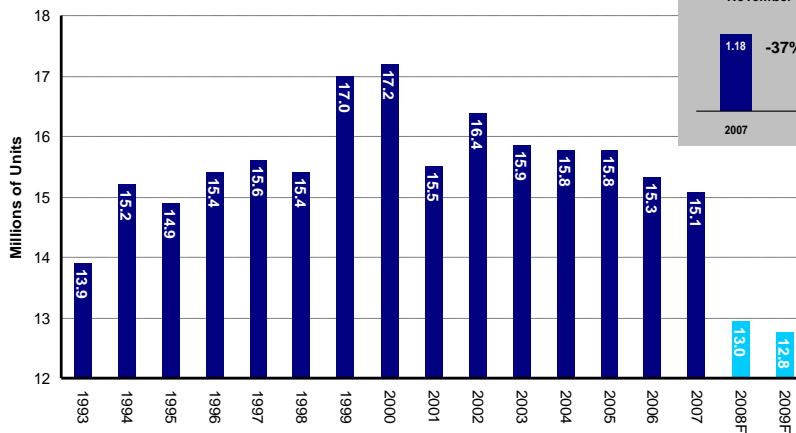
Source: U.S. Department of Commerce

7



## NAFTA Automotive Market Is In Crisis

**NAFTA Light Vehicle Production 1993-2009**



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

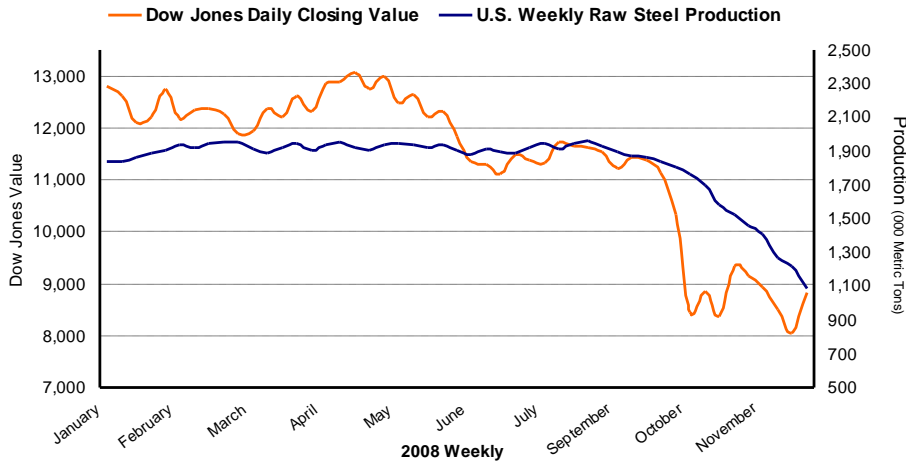


Sources: Automotive Market Research Council (Fall 2008), Ward's Automotive.

8



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



Source: Dow Jones Industrial Index, AISI

9



## 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%

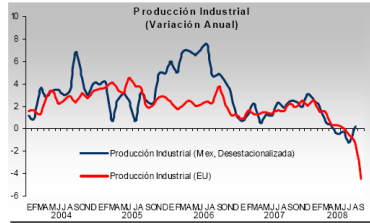
Source: CIBC World Markets, December 1<sup>st</sup>, 2008.

10

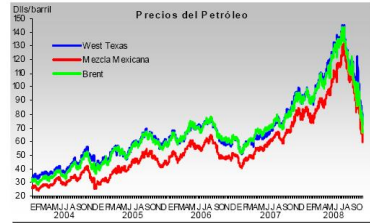


# Mexico: All Indicators Show A Drastic Change

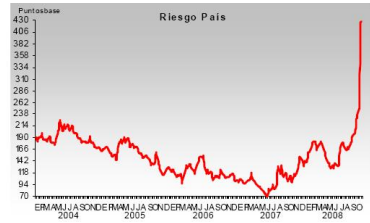
**Industrial Production: Mex & US**



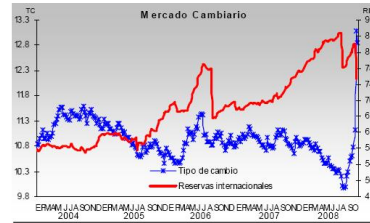
**Oil export prices**



**Risk: Restrictions to Credit**



**Reserves and Exchange Rate**



Source: Oxford Economic & Capem.

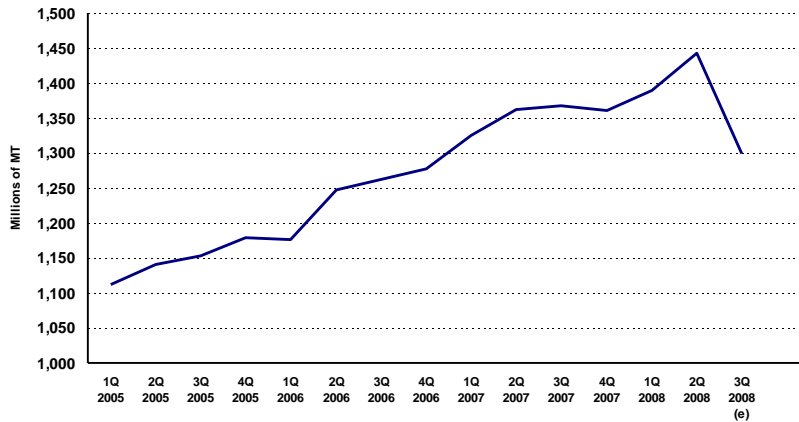


## 1. NAFTA Steel Market Conditions – Part B: Growing Trade Concerns



## Global Steel Consumption Is No Longer Growing

Global Apparent Steel Consumption (Annualized)



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

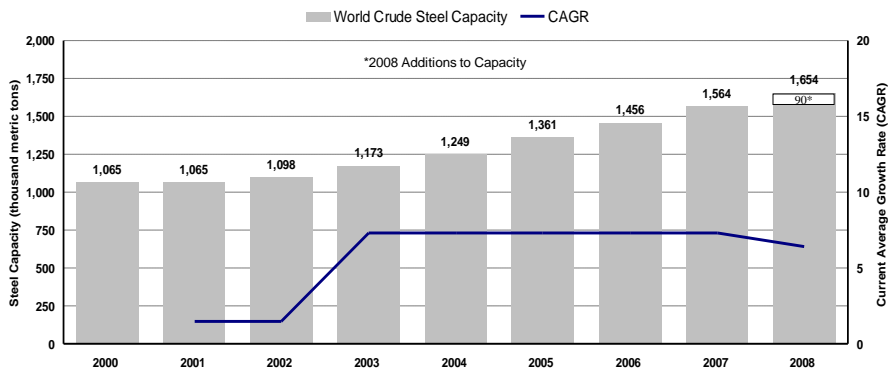
13



## 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

14



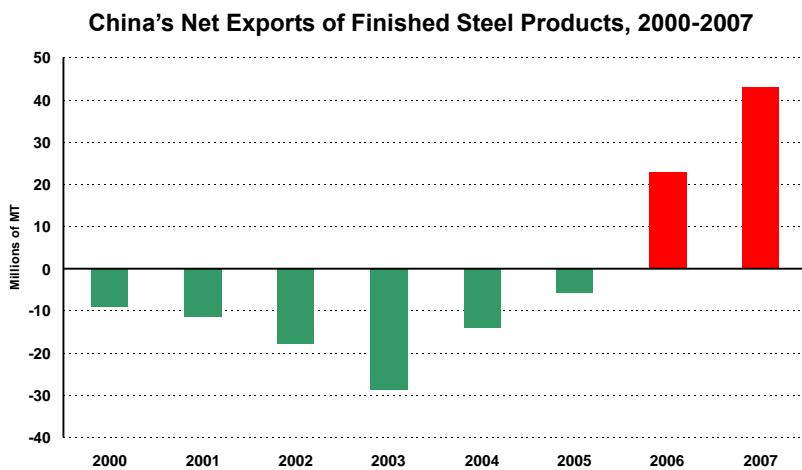
## NAFTA Steel: Positioned To Compete

- 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

15



## China Now A Massive Net Exporter Of Steel



Source: World Steel Dynamics, "Global Steel Alert # 31" (Oct. 1, 2008) at 7.

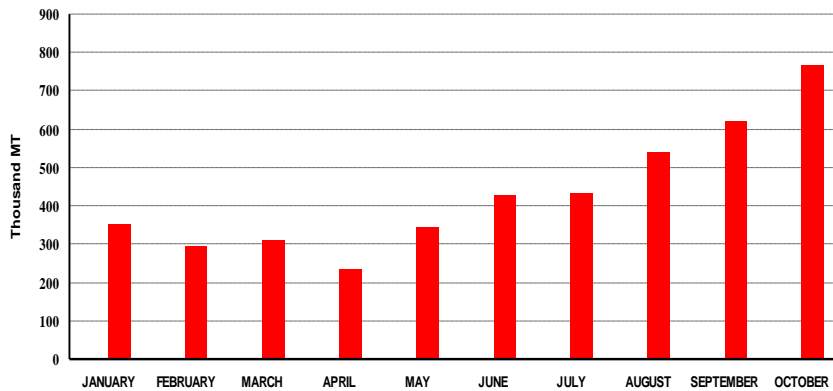
16





## NAFTA Imports From China Are Rising...

Chinese Imports to NAFTA Countries 2008 - Monthly



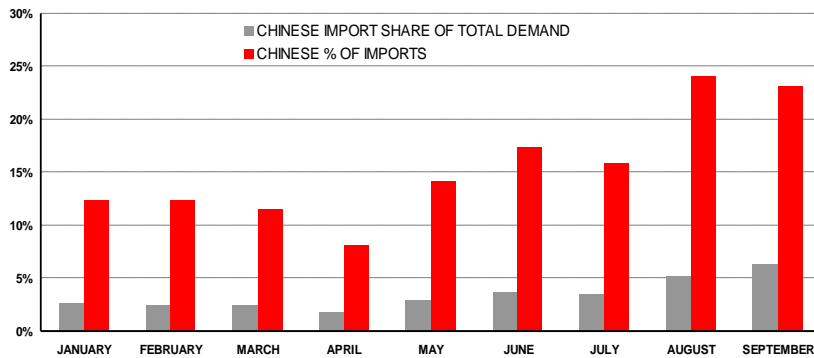
Source: NAFTA Steel Trade Monitor

17



## ... While Chinese Import Share Is Increasing

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



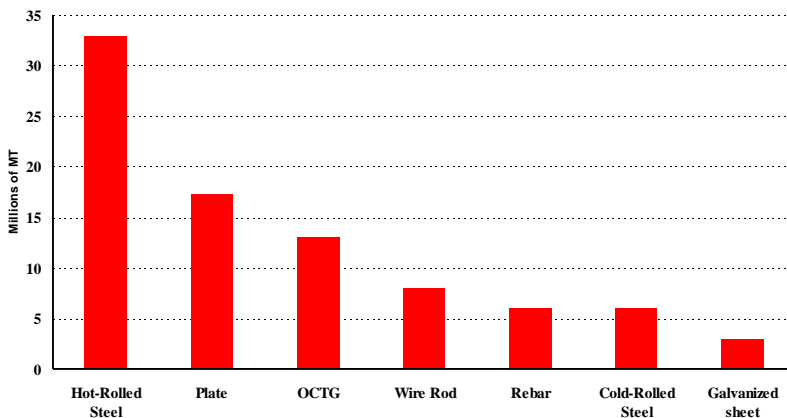
Source: NAFTA Steel Trade Monitor

18



## 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.

19



## 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

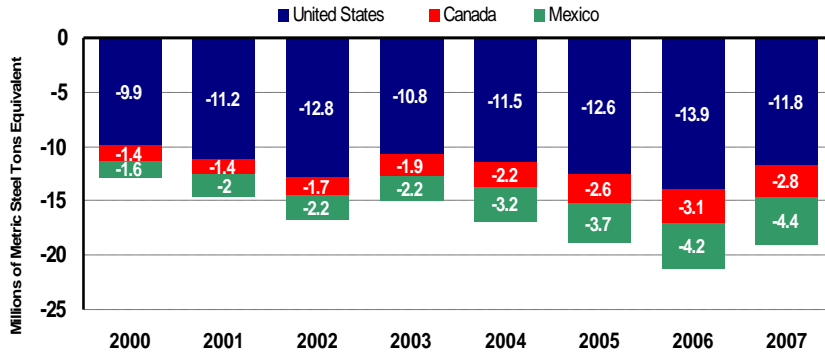
Source: NAFTA Steel Trade Monitor

20



## NAFTA Manufacturers Face Intense Import Competition

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



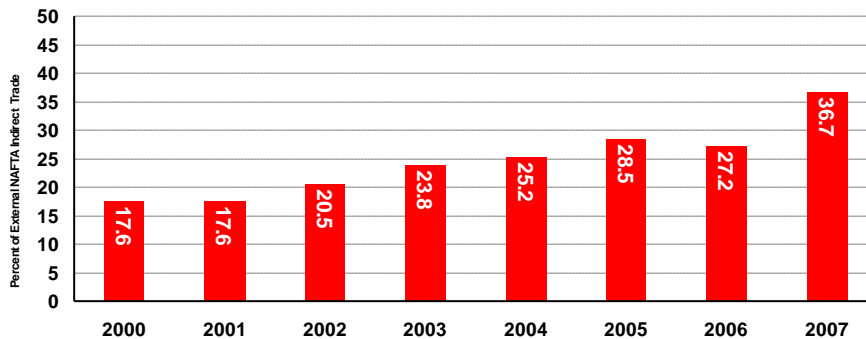
Source: AISI Indirect Steel Trade Report, Global Trade Atlas

21



## China Also Driving NAFTA Indirect Steel Trade Deficit

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



Source: AISI Indirect Steel Trade Report

22



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



23



## 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

24



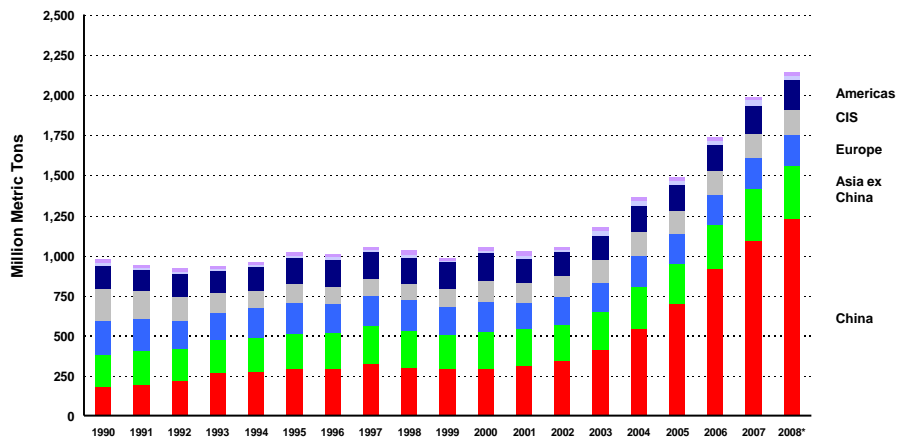
## 2. North America Is A Major Producer, Consumer And Trader Of Raw Materials

25



## Global Iron Ore Consumption Has Increased Significantly

Global Iron Ore Consumption 1990-2008



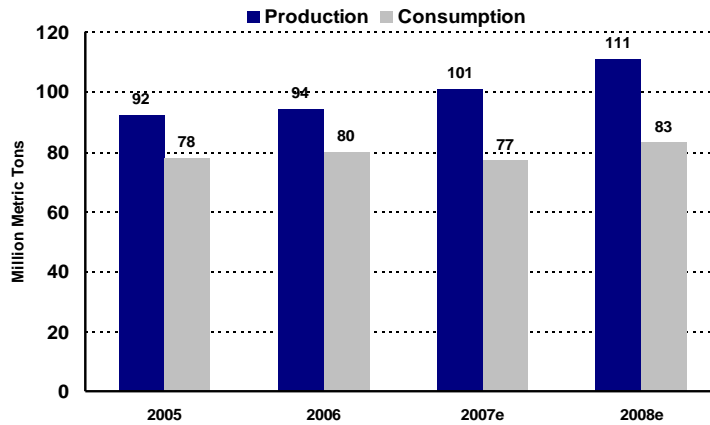
Sources: AME, UNCTAD, IISI. \*2008 data is annualized.

26



## NAFTA Is A Net Exporter Of Iron Ore...

NAFTA Iron Ore Production And Consumption, 2005-2008



Source: Lehman Brothers, April 2008.

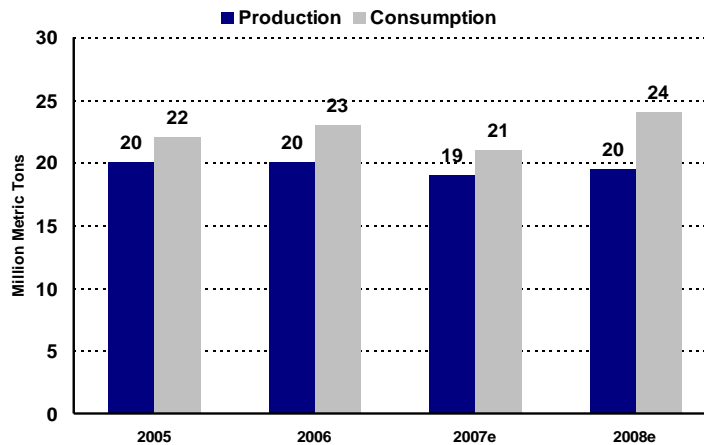
Mexico data from Mexico Raw-Materials\_P-M-X-CNA\_2000-2008.

27



## ...And A Slight Net Importer Of Coke

NAFTA Coke Production And Consumption, 2005-2008



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

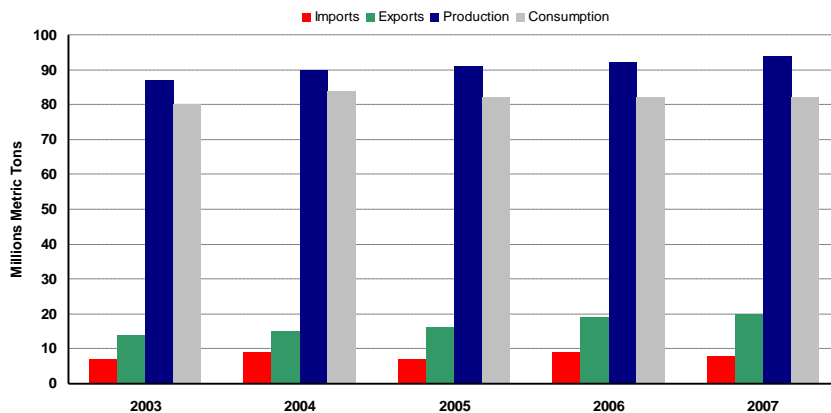
Mexico data from Mexico Raw-Materials\_P-M-X-CNA\_2000-2008.

28



## NAFTA Scrap Market Summary

NAFTA Scrap Profile 2003-2007



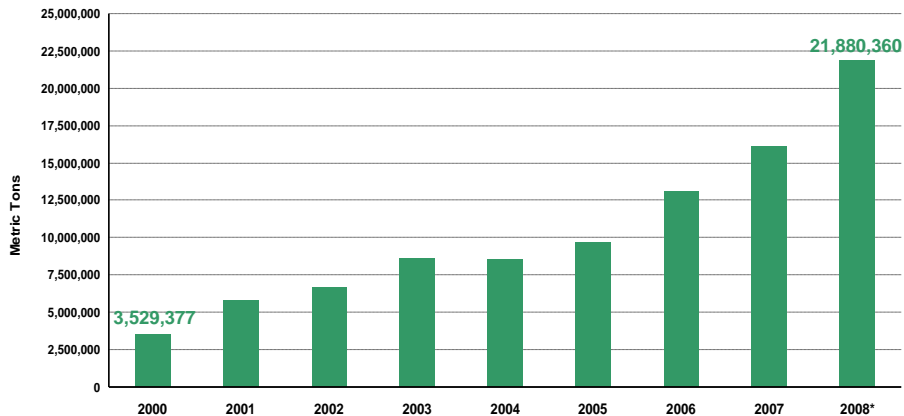
Source: US Geological Survey, IISI

29



## 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.

30



### 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

Source: American Scrap Coalition, “Raw Deal: How Governmental Trade Barriers and Subsidies are Distorting Global Trade in Raw Materials”

33



## Select Raw Material Export Restrictions

Raw Material	Country
Coke	China, Ukraine
Ferroalloys 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

Source: European Commission Staff Working Document SEC (2008) 2741

34



## 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

Source: American Scrap Coalition, “Raw Deal: How Governmental Trade Barriers and Subsidies are Distorting Global Trade in Raw Materials”

35



## 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

Source: American Scrap Coalition, “Raw Deal: How Governmental Trade Barriers and Subsidies are Distorting Global Trade in Raw Materials”

36



## 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

37



## 4. Key Policy Conclusions

38



## 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

39



## 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

40



## 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

