

Ferrous



'Too much too soon' from steel producers?

Conditions for the global steel industry have improved since this year's BIR Spring Convention in Dubai, but there was no great mood of celebration at the BIR Ferrous Round-Table in Amsterdam. Instead, there were warnings that many steel producers around the world have implemented output increases before an improvement in real demand has become entrenched.

'Optimism is returning' but the scale of the improvement within the steel industry should not be overstated, the latest BIR Ferrous Round-Table was warned by divisional President Christian Rubach of Germany-based Interseroh Hansa Recycling GmbH. 'Although we are seeing the first signs of economic recovery, so far this seems to be based on restocking of inventories and/or the result of stimulus packages and other governmental programmes,' he pointed out to delegates in Amsterdam.

Mr Rubach underlined that leading market analysts are still anticipating difficult times ahead for the steel industry: Steel Business Briefing, for example, has declared recently that 'steel demand expectations could col-

lapse to late-2008 levels again'; the European Confederation of Iron and Steel Industries (Eurofer) has warned that there is unlikely to be any rapid recovery in the EU steel market (see box headed 'Slow motion market predicted by Eurofer'); and Deutsche Bank Research has ventured to suggest that steel production levels in Europe will not recover to 2007/08 levels for 10 years - a prediction which prompted Mr Rubach to add 'Let's hope they are wrong'.

The BIR Ferrous Division President emphasised that the economic outlook is distinctly regional in nature, with all available forecasts suggesting that there will be a pronounced 'split' in the world's economic growth patterns

over the coming years: Western economies appear likely to suffer a significantly slower rate of improvement than, for example, large parts of Asia and Brazil.

'Huge' impact of crisis

A report from Markus Barg of TSR Recycling in Germany highlighted the difficult circumstances in the EU. Europe's construction, shipbuilding and engineering industries have suffered a 'huge' negative impact from the financial and economic crises, resulting in a 41% slump in EU crude steel production to 84.2 million tonnes when comparing the first eight months of 2008 and 2009. 'Some countries - like Germany, for instance - even fell back to their crude steel production level of the 1960s,' delegates were informed.

'One year of crisis with production cuts of more than 40% has certainly left its marks on the financial situation of our customers; their margins seem to be healthy, but the volumes are missing,' Mr Barg continued. In addition, the EU steel industry is 'running out of sales options' given that leading consumers of the past - including Italy and Spain - are no longer

so important for the continent's producers. Having underlined the close relationship between the steel and scrap markets, Mr Barg insisted that 'circumstances are far from being good' and that 'a fundamental recovery is not in sight'.

40% scrap consumption drop

In his statistical analysis, Mr Barg observed that, when compared to the same period last year, EU steel scrap consumption fell around 40% in January-August 2009 to approximately 45 million tonnes. EU steel scrap exports declined just over 20% in the first half of 2009 to 6.5 million tonnes while the region's imports tumbled approximately 40% to 1.4 million tonnes.

Turkey maintained its position as the leading buyer of EU steel scrap in the first half of the year, although purchases plummeted almost 39% to just short of 3 million tonnes. Over the same comparative periods, Egypt reduced its orders by 57.6% to 232 000 tonnes while Switzerland cut its requirements from the EU by 40.6% to 174 000 tonnes. By complete contrast, EU exports to India, China and Pakistan soared 139%, 144.2% and 176.2%, respectively, to yield totals of, in turn, 1.133 million tonnes, 613 000 tonnes and 406 000 tonnes. The EU's leading supplier of steel scrap also remained unchanged although Russian deliveries of approximately 350 000 tonnes in the first six months of 2009 represented a decrease of around 55% from January-June 2008. In second place came the USA on 284 000 tonnes (+35.5%).

Sales still difficult

In his presentation, Mr Barg made reference to an analyst's prediction that, between now and the year 2020, Europe's share of world crude steel output will decrease from 16% to 8% while the proportion produced in Asia will jump from 56% to 80%. In this context, Blake Kelley of Sims Metal Management pointed out that China is already responsible for almost 49% of the crude steel produced worldwide, having upped year-on-year output by more than 12% at a time when the rest of the world as a whole has cut volumes by more than 26%. But despite some very recent and yet indecisive price increases in China, conditions for the steel industry in Asia 'are generally difficult and deteriorating as we speak', he said.

In recent months, many countries have increased their steel production. Mr Kelley suggested 'many people believe producers have increased output by too much too soon', adding that 'demand does not seem to be developing much beyond the amount required to restock'. In his US market focus, Mr Kelley reported 'concern' at the possibility that domestic steel output will increase from just over 61% of capacity in late October to 70% in the foreseeable future. 'Steel sales are increasingly difficult to make, suggesting that restocking has been completed and true demand may not have developed,' he said. 'As a result, buyers expect the next steel price will be lower.'

In his market summary, he described idled excess capacity as an 'overriding issue' in the steel industry. Despite consolidation, therefore, the sector's product prices 'are unlikely to increase to sustainable levels any time soon', Mr Kelley argued. 'But in the meantime, lower volume makes it very difficult for scrap processors and steel producers to effectively amortise their costs.'

He predicted that scrap prices are likely to continue easing downwards until demand and supply return to balance - possibly by late December buying but more probably not until January next year.

According to Andrey Moiseenko of MAIR in Russia, domestic scrap collection volumes amounted to some 2 million tonnes in September this year - a decline of around 30% compared to 2008 - although October was expected to witness the highest monthly collection total of the year to date. Since the start of this year, steel producers in Russia have reduced their scrap stocks from upwards of four months to the 'normal' level of around one month, he added. Russia's scrap exports were described as 'stable at a low level'.

China the 'wildcard'

In his guest presentation, Dr Thomas Ludwig - CEO of German steel distributor Klöckner & Co SE - dismissed widespread fears that China would become a major exporter of steel. Having emphasised that the Asian giant is not a low-cost producer, he suggested that it makes no sense for the country to import raw materials so as to export steel rather than steel-containing finished products.

Describing its government as the world's biggest steel producer, Dr Ludwig said that China



BIR Ferrous Division President Christian Rubach: 'Optimism is returning.'



Markus Barg of TSR Recycling in Germany: 'Steelmakers' margins seem to be healthy, but the volumes are missing.'



Guest speaker Dr Thomas Ludwig, CEO of German steel distributor Klöckner & Co.



Blake Kelley of New York-based Sims Metal Management.



Anthony P. Bird of the UK-based Bird Group of companies (left) and Ruggero Alocci of Alocci Rappresentanza Ind. in Italy.



Hisatoshi Kojo of Metz Corp, Japan (left) and Andrey Moiseenko of MAIR, Russia.



Joaquim De Souza-Gomes of Brazil's Gerdau Group (left) and Robert Salsitz of Protrade Steel of the US.

Retirement gift for industry 'friend'

On the occasion of his retirement from the European Commission after 27 years of service, a special presentation was made to Alberto Canevali at the BIR Ferrous Round-Table in Amsterdam.

Formerly in charge of steel and scrap industry affairs within the Commission's DG Enterprise, Mr Canevali has been 'an important and great friend of our industry for many years', delegates were told by BIR Ferrous Division Honorary President Anthony Bird of The Bird Group of Companies in the UK. In 1984, the latter recalled, Mr Canevali's 'patience and common sense' had proved crucial in helping the industry to win its argument with steel producers over the right to export scrap from the EU. 'He made our success possible,' stated Mr Bird. Over the years, Mr Canevali has developed 'a great understanding' of the steel industry and of recycling, he added.



Alberto Canevali (left) and BIR Director General Francis Veys.

'Slow motion' market predicted by Eurofer

The EU steel market 'will remain stuck in slow motion for the time being' despite signs of a turning point in the global economy during the third quarter of 2009, insists Gordon Moffat, Director General of the European Confederation of Iron and Steel Industries (Eurofer). Furthermore, he warns: 'Global crude steel production increasing in anticipation of a recovery in steel demand which yet has to materialise remains a major risk for the EU supply-demand balance.'

The organisation's recently-released steel market outlook for the period to 2011 contends that prospects remain 'subdued' for some of the EU's key steel-using sectors, including automotive and construction. Despite greater stability emerging within the financial markets, financing is still a 'bottleneck' for many companies and industrial orders remain weak in spite of some inventory replenishment. 'While year-on-year output growth should turn positive again in the second quarter of 2010, it could take to 2011 before a more pronounced rebound in output begins,' Eurofer suggests.

Weak activity in the steel-using industries and sharp destocking in the steel supply chain resulted in apparent steel consumption plummeting 45% year on year in the first half of 2009 and by almost 32% in the third quarter. However, stocks are now 'better aligned with the current weak level of steel demand', Eurofer explains. 'Drastic production cuts at EU mills and substantially reduced third country imports supported the process of balancing supply with demand. Significantly reduced steel inventories resulted in some customers cautiously returning to the market in recent months to fill gaps in their stocks.'

'Technical' demand recovery

In 2010, some inventory build-up following heavy destocking in 2009 will lead to a 'technical' recovery in steel consumption, which is forecast to increase by approaching 12%. And improving end-user activity should provide 'a broader basis for steel demand growth' during 2011. Eurofer comments: 'This will also trigger the need to align stocks with higher downstream output. Apparent steel consumption could grow by 7.5%.'



Compared with the same period last year, output in the EU steel-using sectors tumbled almost 23% in the first half of 2009 as companies were forced to cope with an 'unprecedented' drop in demand for industrial goods, both in the EU and in global export markets. Latest data indicate that the production decline in these sectors will be nearer 18% for the year as a whole while forecasts for 2010 suggest gradual further improvement; from the second quarter onwards, says Eurofer, 'year-on-year growth could become slightly positive again'. A more pronounced recovery is anticipated in the following year, with initial steel-weighted industrial production data venturing an increase of 4%.

is in a position to manage its steel output far more effectively than the democratic world. If Chinese ministers fail to manage this growth, there is potential for huge over-capacity, he warned.

While maintaining that the worst of the global crisis 'is behind us' and that the long destocking phase in the steel sector is at an end, Dr Ludwig also warned that real demand for steel has shown no signs of a major recovery and could remain at low levels for some time. 'Maybe we won't see again such high steel consumption as we have seen in 2007 and 2008,' the speaker said.

Without a rapid improvement in real demand, steel prices are likely to remain highly volatile in the coming years, according to Dr Ludwig. It is therefore important, he added, for steel distribution companies such as his own to maintain high levels of discipline with regard to stock management. 'We will not speculate with our stocks,' he went on to insist.



Threat to trade with India

Although helpful changes have been made in relation to registration and pre-shipment inspection proposals, scrap exports to India are still under threat because government officials have yet to be convinced to remove ferrous and non-ferrous scrap from the 'hazardous waste' classification - despite the concerted efforts of the BIR, the US Institute of Scrap Recycling Industries and the newly-formed Metal Recycling Association of India. During the Ferrous Round-Table in Amsterdam, BIR Ambassador Ikbal Nathani of India's Nathani Group of Companies confirmed that, at the time of speaking, the Indian government had not complied with the requirement imposed on all Basel Convention signatories to inform the secretariat officially of these regulatory changes. □