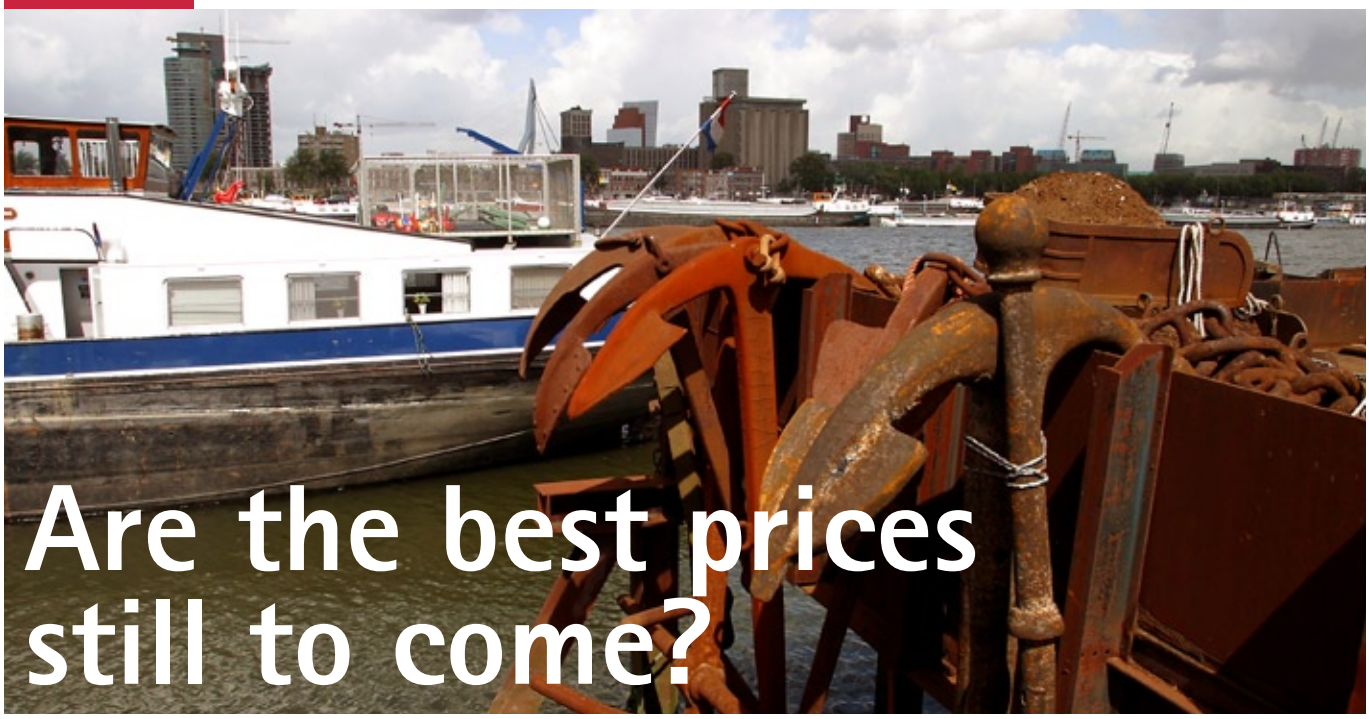
By Ian Martin

Ferrous



Are the best prices still to come?

In many instances, steel scrap prices have more than doubled since the latter part of 2007. And the upward momentum could be sustained into the second half of this year, according to expert feedback from the BIR Spring Convention in Monte-Carlo. However, higher prices are also placing significantly more pressure on the financing of steel and scrap processing operations, it was noted at the Ferrous Division meeting.

From left: Ferrous Division President Christian Rubach of Germany-based Interseroh, Anthony P. Bird of the UK Bird Group of Companies and .....

Jens Hempel-Hansen of Denmark-based H.J. Hansen recycling (left) and Anton van Genuchten of TSR Recycling in Germany.

'We believe the highest prices for scrap in 2008 will be achieved during the second half-year.' That was the confident assertion of BIR Ferrous Division Vice-President Anton van Genuchten of Germany-based TSR GmbH & Co. KG. Addressing the divisional meeting in Monte-Carlo earlier this month, he also commented: 'There is only one factor that can stop this demand for steel and therefore scrap, and that is the end consumer of steel products - nobody else.'

Steel scrap prices had been trading at 'record levels', Mr van Genuchten told delegates. For example, the HMS I/II (80/20) fob Rotterdam price had sky-rocketed 110% from US$ 340 per tonne in mid-December last year to US$ 655 by mid-May. And while acknowledging that the market had been 'taking a breather' in the days leading up to the convention, he pointed out: 'There continues to be a firm demand for ferrous scrap and there's not much obsolete scrap simply lying around or being stocked by anybody.'

Mr van Genuchten confirmed that EU-27 steel scrap exports climbed 489 000 tonnes - or 4.8% - to 10.566 million tonnes last year. Turkey remained the hungriest consumer of EU scrap by far in boosting its imports to 5.927 million tonnes (+22.6%). In second and third places respectively were Egypt on 897 000 tonnes (-33.6%) and India on 633 000 tonnes (+52.2%). EU steel scrap shipments to Pakistan surged 94.3% to 412 000 tonnes.

By contrast, EU-27 imports of steel scrap plummeted 29.5% last year to 5.142 million tonnes. Russia remained the leading supplier despite a 47.7% reduction in its shipments to the EU while deliveries from the USA jumped 38.8% to 713 000 tonnes, according to Mr van Genuchten's statistical analysis.

Within the EU last year, steel scrap purchases by the mills reached 88 million tonnes - a figure which includes imports. EU-27 mills produced a total of 210.2 million tonnes of steel, with electric arc furnaces claiming a 42.7% share.

Far higher domestic demand

Reasons behind the steep decline in Russia's exports were outlined by new Ferrous Division board member Roman Genkel of the Mair group. In addition to far higher domestic demand for scrap on the back of increasing electric arc furnace capacity, a lack of invest-

ment in port infrastructure within Russia would continue to dent the country's export performance. Indeed, he anticipated a further decline in steel scrap exports of around 1 million tonnes in 2008, as well as an increase in export duties of between Euro 120 and 200 per tonne.

In the Ukraine too, port issues and rising domestic consumption of steel scrap would serve to rein in exports, added Mr Genkel. Overseas shipments are expected to account for well under 1 million tonnes of total steel scrap deliveries which are being estimated at around 8 million tonnes for 2008.

According to Ferrous Division President Christian Rubach of Interseroh Hansa Recycling GmbH of Germany, estimates from the International Iron and Steel Institute (IISI) confirmed that Russia - alongside fellow BRIC nations Brazil, India and China - would be 'leading the growth' in 2008. World steel production is expected to reach 1.4 billion tonnes this year and 1.5 billion tonnes in 2009 while apparent steel use is slated to grow 6.7% to 1.282 million tonnes in 2008 and a further 6.3% next year. Heavy ordering from the construction and energy sectors is expected to produce a 10.2% increase in Russian steel use this year, while double-digit growth rates are also anticipated for China (+11.5%) and Brazil (+10.3%).

'The future outlook for the worldwide steel industry remains very good,' concluded Mr Rubach. As a result, 'demand for scrap will be growing, which means supply of scrap will remain tight.'

Challenge of climate change

The IISI also provided the Ferrous Division with its guest speaker in the form of Deputy Secretary General Mika Saariaho. He argued that climate change factors represented the biggest long-term challenge facing the steel industry, which is responsible for around 3-4% of global greenhouse gas emissions. The goal of reducing these emissions would prompt major research into 'totally new methods of making steel', he ventured.

'Maximum' recycling was crucial to the future of the steel industry for energy efficiency reasons among others, said Mr Saariaho. Indeed, according to IISI calculations, steel recycling is responsible for saving some 900 million tonnes of carbon dioxide emissions every year.

The guest speaker also underlined the industry's existing environmental credentials in noting that 'almost all available steel is recycled'. In this context, IISI has calculated that the 20 billionth tonne of steel was recycled in October last year - although an exact time and date was not provided! Steel represented the most recycled material in the world 'but is not perceived to be', according to Mr Saariaho. Therefore, there was a challenge not only to increase recycling rates but also to communicate this performance to the world at large.

The speaker warned that the rate of obsolete scrap availability was growing more slowly than crude steel production. Scrap had contributed 48.7% towards crude steel production in 1975 but the proportion had dropped to 36.4% by last year - partly on the back of a massive increase in Chinese integrated production. Nevertheless, China was the world's second-largest user of steel scrap after the EU with respective shares of 16% and 23% in 2007.

Experts believe that the firm demand for ferrous scrap will continue during the remainder of the year.

High demands on working capital

The downside of high scrap prices was highlighted by Blake Kelley of Sims Global Trade in his review of the US market. 'We see more instances of difficulty to finance steelmaking and scrap processing operations as prices have doubled or tripled and caused commensurate demands on working capital,' he said. 'Maybe lenders are reluctant to increase credit lines, despite sustained good margins, because they expect end-user consumer defaults and collection losses, or simply recall the not-too-distant past when things were seemingly hopelessly worse.'

Mr Kelley also pointed to increased scrap consumption among integrated mills, for which he offered three possible explanations: an inability to acquire adequate supplies of certain raw materials to sustain or expand production; an attempt to produce steel with lower carbon dioxide emissions per tonne of steel; or a bid to increase productivity per cubic metre of furnace size by melting rather than smelting. And he added: 'Each 1% increase in purchased scrap consumption by the integrated industry causes 8.5 million tonnes increased annual consumption.'

The speaker closed by predicting that the current high rates of steel production and raw material consumption would persist and that market fundamentals should remain 'very firm'.

Guest speaker at BIR's Ferrous Division meeting was Deputy Secretary General Mika Saariaho of the Brussels-based International Iron and Steel Institute (IISI).

General Delegate Rolf Willeke of the German steel recycling association BDSV.

Ruggero Alocci of Maind Srl of Italy (left) and Ikbal Nathani of the Indian Nathani Group of Companies.

Price cuts in India

The recent trend towards far higher prices had not been universal, the meeting in Monte-Carlo also learned. Ferrous Division board member and BIR Ambassador Ikbal Nathani of the Nathani Group of Companies confirmed that Indian steel producers had implemented price reductions of US$ 100-150 per tonne. At the same time, the Indian government had reduced the import duty on scrap from 5% to zero while a 10% levy had been applied to exports of steel.

Mr Nathani went on to note that annual steel production in India was targeted to jump from 55-56 million tonnes in 2008 to some 120 million tonnes by the year 2012, and as high as 280 million tonnes by 2020. There was scope for a considerable increase in per-capita consumption of steel in India, he observed. □