

Scrap and secondary

BIR Conference Decline in stainless steel production to hit scrap hard

No recovery for stainless scrap before second quarter 2009

DÜSSELDORF
BY JANA MARAIS

A recovery in demand for stainless scrap is unlikely before the second quarter of 2009 at the earliest, due to the uncertainty in the global markets and a decline in stainless steel production.

The Bureau for International Recycling (BIR)'s stainless scrap committee told delegates at the BIR conference in Düsseldorf that mills might start raising output slowly in the second half of next year as demand increases to replenish stocks, but that production figures will not reach the levels predicted at the beginning of 2008.

Stainless steel production is expected to reach 27.2 million tonnes this year, considerably

GOING DOWN

27.2m

Expected stainless steel production in tonnes this year: down on the predicted 30m and the 28.5m achieved in 2007

lower than the more than 30 million tonnes predicted at the beginning of 2008 and down from 28.5 million tonnes in 2007, the BIR said. Further declines are predicted for 2009, with total output expected to reach 26.3 million tonnes.

The current economic turmoil saw stainless scrap prices in Europe

shedding around \$800 per tonne in October, driven by a decline in demand for raw materials as mills sharply reduced output since the beginning of the month when orders for finished products "collapsed".

"No one, not producers or stockists, wants to build stocks in the uncertain market," committee chairman Michael Wright, from ELG Haniel Metals, said in the presentation.

While job losses have been reported in the US scrap industry, the current market turmoil happened so quickly that merchants in the UK are still analysing the situation and are focusing on cutting costs. There have been no reports of job cuts by merchants yet, he said.

BIR CONFERENCE
DÜSSELDORF

CIS scrap collection plummets

Steel mills in Russia and Ukraine have sufficient raw material in stock to keep operating until March 2009 at their current production levels, according to Roman Genkel, director of Russian scrap company Mair and BIR committee member.

Speaking at the BIR conference in Düsseldorf, Genkel said Russian mills have already cut output by 25–30%, while production cuts in Ukraine have already reached 75%.

The big drop in scrap prices in the past month has also seen scrap collection drop significantly, Genkel said. Russian steel scrap collection has decreased by three to four times in October compared to the peak June/July levels, while further decreases are expected in collection by the end of the year.

In Ukraine, scrap collection has reached 20% of normal levels in October already, with further declines expected, Genkel said.

These markets are currently

characterised by price renegotiations and overdue payments, with only steel scrap subsidiaries receiving money for delivered scrap without delay, he said. Other merchants are struggling to secure payments from mills and independent suppliers, or to get new credit lines from the banks.

"In order to get out of this crisis soon the whole steel industry, including steel mills and scrap processors, needs to cut production and processing as much as possible now in order to stabilise the market," Genkel said.

LONDON

HBI, pig iron woes could bode well for scrap

The global ferrous scrap market is "bouncing along the bottom", with some market participants predicting more stability from February next year.

"Are we at the bottom of the market? I think we're bouncing along the bottom," Blake Kelley,

vp at Sims Metal Management in the US, said at the BIR conference in Düsseldorf. He noted some signs of stability, based on the sharp decrease in scrap collection and an eventual need to restock by scrap buyers, even if only on a small scale.

Scrap arisings have reduced by about 40–50% in response to dramatic price cuts, while many mills and yards have stopped buying completely. This might aid a price recovery when buyers return to the market as scrap might be in short supply. This might not ring true in Europe, however, where high stocks are reported at yards and mills,

Other potentially positive signs include the favourable cost of scrap versus iron ore, which will encourage integrated producers to increase scrap consumption, while supporting an increased competitive position for EAF producers, Kelley said.

In addition, increasing numbers of pig iron and HBI producers are now seeing sales prices falling below cost.

LONDON

UK secondary Al prices dive on falling demand

Secondary aluminium prices fell on November 5 with demand remaining at low levels and buyers cautious amid bearish news from carmakers.

LM24 pressure diecasting ingot eased to trade at £1,000–1,060 (\$1,594–1,715) per tonne from £1,040–1,100 per tonne previously.

"It's all very much hand-to-mouth because people are not ordering ahead," one producer told MB.

LM6/LM25 gravity diecasting slipped to £1,250–1,300 per tonne from £1,290–1,340 per tonne previously.

Ingot producers noted a steep decline in contract negotiations as consumers leave it until the last minute to order.

"The contract business has been decimated," a second producer said.

One company reported selling four loads last week with two for delivery on November 7 and two for delivery on November 10.

"That's how small the timeframe is," the company commercial director said.

LONDON

Stena Aluminium stops Danish production

Aluminium alloy producer Stena Aluminium will stop output at its operations in Kolding, Denmark, by the end of 2008 or early 2009.

The move is an attempt to cope with the deteriorating situation in the secondary aluminium industry.

"In terms of earnings, we have experienced several years of losses at Kolding. The situation has deteriorated rapidly during this last year, with the problems in the automotive industry having a huge impact on us," Stena Aluminium md, Staffan Persson, said in a statement.

The aluminium alloy producer intends to move its production to Älmhult, Sweden, where the rest of its production base is located.

"The aim is to retain some activities in Kolding, but our production facilities need to be concentrated in Älmhult in order to meet both present and future challenges," Persson said.

Shockwaves Letters sent out to European suppliers

ArcelorMittal comes under fire for contract cancellations

LONDON

BY JANA MARAIS

Steel giant ArcelorMittal has sent shockwaves through the ferrous scrap market in Europe by cancelling ferrous scrap orders for October and beyond in response to falling steel prices and production capacity reductions, market sources told MB.

"On November 5 ArcelorMittal announced it was taking prudent and responsible steps to align supply with demand in the short term due to prevailing market conditions. In line with the temporary 35% cut to global production we have announced we are speaking with a number of our suppliers to realign some of our needs in the short term," said a spokesman for the company, who declined to comment further on the situation.

But sources at the Bureau for International Recycling Conference in Düsseldorf two weeks ago said that the steelmaker made the cancellations without giving any opportunity for renegotiation.

The company's first letters of cancellation in Europe were sent in mid-October and referred to contracts opened in September, according to market participants.

"Due to the current situation in the steel market and a reduction in demand for scrap, we unfortunately will close all contracts completed before September and not yet delivered, with immediate effect," one letter dated October 15 and sent to German suppliers reads.

"The problem is that a number of ArcelorMittal suppliers have already contracted the material from their own suppliers, who won't just accept a cancellation," one supplier, who supplies the steel company on a spot basis, said.

"This leaves the [ArcelorMittal] supplier in a position where you've bought material at a specific price

'We are really upset because in the last boom we honoured our contracts when prices were increasing drastically, while we could have milked buyers for more'
Supplier

because you had a buyer for it at a higher price, but now that buyer has pulled out as market prices fell," he continued. "I think what they're doing is the most terrible one can do as a global leader in the industry and it must be stopped."

"They had many excuses at first – then the port couldn't handle the material [delaying deliveries] – but in the end they just put out a blanket cancellation," one respected source said.

One Spanish supplier said some cargoes have been cancelled and that they have not been buying tonnage from importers in Spain in October.

"They put a price out on September 1 and while people were delivering on their contracts, they've re-adjusted prices downwards on three occasions with immediate effect during the month," he said.

In a subsequent letter to a supplier dated November 3 read to MB over the phone, the company said its "position in steel production is affected to a large extent" by the dramatic changes in the world economic market, adding it had many customers which had cancelled contracts.

"Now we don't have enough production targets to use the raw materials we have envisaged earlier," it said. "In view of the above, we are compelled to cancel



Trashed: contracts with European ferrous merchants cancelled

the subject contract. Kindly do not deliver any material again on these contracts. [...] We hope to come out of this situation in the very near future and conclude usual business."

The supplier asked to remain anonymous as discussions with ArcelorMittal continue regarding the matter.

Although many ferrous scrap purchases have been cancelled in the past few weeks, particularly from India and China, these involved predominantly small players who in many cases had no other choice.

In the case of China, it was also driven by government orders and the banning of foreign payments, rather than the decisions of the individual companies, merchants said.

ArcelorMittal's cancellations in Europe have come under more intense criticism because it was unexpected from a global player and the company gave merchants no opportunity to try and find a solution which would favour both parties, sources told MB.

As yet it is unclear when ArcelorMittal will start buying again, but market participants believe it is

unlikely to be within the next three to six months in Europe.

BIR committee members were diplomatic about the situation at the meeting in Düsseldorf, with one member only stating they were "particularly disappointed that certain global steel companies with operations in Europe and previously good reputations have cancelled their contracts."

"Contract cancellations are nothing new in the industry. When prices go up, sellers often cancel contracts and try to re-negotiate prices with buyers, and vice versa when prices go down," another supplier said.

"In this situation, we are really upset because in the last boom we honoured our contracts when prices were increasing drastically, while we could have milked buyers for more," the supplier said.

"But now, when prices are falling, they have deserted us and are cancelling contracts without giving us the opportunity to negotiate."

ArcelorMittal uses around 35 to 40 million tonnes of scrap annually at its mills around the world, with around 10 million tonnes being supplied from internal sources, the company said.