



GLOBAL DEMAND FOR FERROUS SCRAP TO INCREASE IN THE SHORT TERM

*The first quarter of 2015 has been challenging for the ferrous scrap markets across the globe and with currency fluctuations, plus a marked decline in exports in various regions, fluctuating oil prices, new complicated import regulations in India and various other developments in different regions have led to a tough business environment overall. Industry experts examined the situation with regard to ferrous scrap markets worldwide touching upon the current issues, also highlighting the challenges and the future outlook at the Ferrous Division meeting during the BIR World Recycling Convention held in Dubai from 18-20 May. **Swaliha Shanavas** reports.*

The ferrous scrap market this year had a rough start with iron ore continuing on the downward trend that started in 2014 with a slowdown in China's growth and various other developments. More recently there has been a turnaround in I/O pricing due in large part the Bank of China's interest rate cuts, said **BIR Ferrous Division President William Schmiedel** of Sims Metal Management in his opening address at the Ferrous Division meeting held on 18 May.

"The key number to watch is the amount of Chinese exports of finished and semi-finished steel which, while radically decreasing in February and March, bounced back to over 8.5m tons in April, which is a 15% increase over March," he stated.

On the positive side, he sees potential growth in ferrous demand in the GCC countries and India, which he points out, is mostly due to construction projects along with oil/gas and other infrastructure development.

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Guest speaker **Dr. Edwin Basson, Director General, World Steel Association** said "the steel industry is healthy at the moment". China has come to the end of a decade of very rapid growth in steel use, "It's come to the point where we believe that steel use growth in China has stabilised, which doesn't mean it will shrink, but it will go slow," he noted.

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Another alternative is beginning to develop strongly driven more from an environmental perspective, i.e., the use of scrap in steelmaking will grow forward, not so much because there will be many more EAFs "but because it makes a lot of sense in a BOF setup to use scrap particularly when your energy costs are very high. This is one of the reasons why we don't think China is going to turn into a scrap exporter of magnitude for many years to come," Dr. Basson emphasised.

On the growth of steel use on global basis he said there was a very rapid wave of adjustment that took place in 2008-09 with a rapid reaction, growing up to 13.7% and then a gradual stabilisation since 2013-14, a trend they expected to continue going forward. "Overall demand for

steel remains high and quite positive, and we think this will continue because in an environmental context steel is a very competitive alternative to just about any other material available."

Steel use in 2014 globally was at one-and-a-half million tonnes, 0.6% growth, and will remain at about 1.4% for the next three years, he remarked. "We are also seeing this pattern of stabilisation in more mature economies, and although China is still a developing economy is entering a phase where its steel market at least is beginning to act as a mature market. And we are waiting for a new candidate to drive steel use growth going forward."

In this context, he said although India is a strong contender as it has the population and economy size required to have a global impetus, it will be a patchy growth over the next few years. The MENA area also has potential and is growing strongly for the moment, but in terms of size "it is not really large enough to drive a global pattern" and the last one with a potential is the African continent itself, but he said that's quite a way off.

Dr. Basson remarked there will be sufficient growth in steel markets in the next 15 years. "We think as urbanisation takes place, steel use will continue to take place and that will require additional steel production." He also noted that global demand for ferrous scrap for steelmaking would increase by around 110m tonnes in the period from 2014 to 2019, driven by China and Turkey, as well as by the ASEAN and NAFTA regions.

Ismail Al-Sulby, General Manager-Long Products Business Unit, SABIC, said fifty percent of the population in Saudi Arabia is below 20 years old, "so we're a very young country which puts forward big opportunities for economic growth and industrialisation, as well as challenges of education, employment, etc." The MENA region

where they are active as SABIC is one that has had good growth and Saudi Arabia has also been experiencing healthy growth especially considering the current challenges of declining oil prices and political instability in the region and main markets they are active in, he noted. With regard to steel business for the company's long products the market size is around 9.2-9.3 million and they expect the growth to be 1-2% maximum, and they have about 4.7 million tons of flat products he said.

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In 2008 the government had steps to improve conditions with regard to shortage of steel, among which was the restriction on export of steel scrap which helped the local industry as well, he said, adding that due to high demand they had to import scrap but were cautious in choosing their scrap material suppliers. Among the challenges that impact the business in KSA and scrap market in the country, Al-Sulby said two years ago the government started to correct the labour market in Saudi and this created an issue for developmental plans including the construction

business which in turn affected the steel production business as projects slowed down. At present things have started moving in a positive direction on that front he said. The current political situation also adds to the challenges he commented. A challenge as well as an opportunity is the steep drop in oil prices which has affected the market a great deal, but he hopes this situation will act as a catalyst to development worldwide as well.

Zain Nathani of Nathani Group of companies said Indian scrap imports over the last ten months April 1, 2014-January 31, 2015 were 4.4 million mts, which is already higher than the previous year, but short of the imports in 2012-13. To a large extent this is due to the fact that the domestic scrap consuming steel industry has not yet recovered fully and cheaper finished steel was imported last year from China, Ukraine, Korea, and so on.

He expressed that the Indian scrap market was taken by surprise by the Directorate General Foreign Trade (DGFT) notification of April 2015 which sought to revise the Pre-shipment Inspection (PSI) rules for scrap imports into India. In the following weeks, Metal Recycling Association of India (MRAI) with the support of BIR and other local and national associations have worked hard on explaining to the Government of India the impracticalities and difficulties of implementing these new rules, and were successful in getting the DGFT to put on hold the new rules at least for the time being, Nathani explained. The announcement of the new rules has brought the scrap trade to India almost to a standstill for new bookings from major markets worldwide, except from the Middle East which continues due to the short transit and lead time associated with the same, he noted.

Both international suppliers and Indian traders are extremely concerned about any increase in the costs of PSI as well as the feasibility of the new rules. "While MRAI fully supports the Government of India in keeping out radioactive scrap and/or explosives from being shipped in metal scrap, we are hopeful that the government will take the views of the domestic and international trade into account," he said.

The first quarter of 2015 was a challenging period across all EU regions, and the export market saw a marked decline from end January which translated for February and March combined reductions from levels of the previous month of around Euro 50/tonne into home markets, said **Tom Bird of UK-based Mettalis Recycling** in his report on the European market. Turkish prices also fell in a relatively short space of time, and it is very difficult to legislate for this magnitude of reduction and therefore the impact on the business was significant, he stated.

Q2 has started better than Q1, said Bird. Pointing out the volatile exchange rates particularly in relation to pound sterling and the sort of swift changes taking place he said, "you not only have to have a crystal ball to forecast the scrap market, you have to be a currency expert as well, which is extremely challenging,"

"The outlook as we move to the middle of the year is uncertain, but there are definite signs that in the medium term we will see improved trading... To see a sustained improved steel scrap industry we need a buoyant and healthy steel sector," he stressed.

George Adams of SA Recycling USA said a common lament among scrap processors is a continued shortage of raw materials. "It seems the radically lower product value coupled with lacklustre GDP growth and a decline in OCTG demand has severely reduced the amount of prompt deliveries. Whether or not this is the new normal remains to be seen." He also said China's steel exports would determine where the markets are headed in the future.

Hisatoshi Kojo of Metz Corporation predicted the Japanese export price for H-2 scrap was likely to occupy a range some US\$ 8 per tonne either side of the US\$ 212.50 mark over the coming months. He also said Japan's exporters would need to find new customers as China and South Korea moved towards becoming steel scrap exporters over the coming years.

The sixth edition of the BIR Ferrous Division's **"World Steel Recycling in Figures"** was launched during the Ferrous Division meeting.

Rolf Willeke, Statistics Advisor of BIR Ferrous

Division, summarised the major developments and findings contained in the report covering the five year period from 2010 – 2014. He said the statistics reveal that steel scrap usage in world steel production had increased to around 585m tonnes last year, i.e., +0.9% compared to 580m tonnes in 2013. The steel scrap export figures indicate that the EU-28 was the world's leading exporter of steel scrap in 2014 following a slender increase of 0.3% to 16.859m tonnes, performing better than US overseas shipments which declined by around 17.1% to 15.34m tonnes over the same period.

Again, most leading steel scrap importers cut their overseas purchases in 2014 with last year's figures showing a further steep drop in China's steel scrap imports (-42.6%), thus underlining the country's policy of buying more from domestic sources and of reducing imports. Turkey, the world's foremost steel scrap importer also reduced its overseas purchases last year by a further 3.2%; Cuts in steel scrap imports were also made by the Republic of Korea (-13.6%), Taiwan (-4.1%), the EU-28 (-2.0%), Indonesia (-10.9%) and Canada (-12.9%). On the positive side there were slight increases in steel scrap imports of India (+1.1%), the USA (+8.6%) and Thailand (+43.9%). 🔄

