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BIR Autumn Round-Table Sessions Düsseldorf, 30-31 October 2008

Ferrous Division: **Disturbing market conditions and dramatic price cuts**

At this year's BIR Spring Convention in Monte-Carlo, there had been evidence of optimism and even bullishness, according to Ferrous Division President Christian Rubach of Interseroh Hansa Recycling GmbH of Germany. Nobody had anticipated the subsequent scrap price falls of "up to 80%" since the middle of the year, he told delegates to the Round-Table meeting in Düsseldorf. The ferrous scrap industry has grown accustomed to market volatility "but not in such dimensions", he added.

He expressed regret that contracts have not been honoured in certain instances - even by several global players in the steel market. And in his report on US and international business conditions, Blake Kelley of Sims Metal Management agreed that it has been "disturbing" to see so many attempts by buyers to renegotiate contracts or allege letter of credit discrepancies.

Scrap collections have reduced by around 40-50% in response to "dramatic" price cutting while many steel mill and scrap yard purchasers have simply stopped buying, according to Mr Kelley. "In the meantime," he added, "everyone in the chain is trying desperately to reduce inventories."

On a more positive note, Mr Kelley noted that the favourable cost of scrap in relation to blast furnace iron is encouraging increased consumption of the former among integrated steel producers while supporting a more competitive position for electric arc furnace steelmakers. "The daily rate of apparent purchased scrap consumption increased 4.6% in September compared to August, reversing two consecutive months of decline," he observed.

The speaker also identified "some signs that scrap prices are trying to firm" although he qualified this comment by adding: "But we need to watch carefully."

Another Sims Group expert, Kevin Fitzpatrick of the UK, spoke of the "unprecedented" speed of price declines in his report on the EU ferrous scrap market. A 60% drop in scrap demand is anticipated for the fourth quarter while yard infeed volumes are some 30% lower, he added. According to Roman Genkel of PG Mair in Russia, "price renegotiations and overdue payments" have been dominating the domestic market while crude steel production cuts have averaged 25-30% in Russia and 75% in the Ukraine.

Guest speaker Professor Dr Norbert Walter, Chief Economist at Deutsche Bank Group and Head of Deutsche Bank Research, warned delegates that the world financial crisis is "far from being over". And while Asia as a whole will continue to outperform other markets in terms of GDP, he doubts whether China will return to the 11% growth levels achieved in recent years.

Professor Walter also expressed concern that the current crisis may provoke a backlash against capitalism, prompting a move away from globalisation and towards protectionism.

Fellow guest speaker Dr Jost Massenberg, Member of the Executive Board at German steelmaker ThyssenKrupp Steel AG, acknowledged that the business climate is currently "delicate" but insisted that his own company will persist with its longer-term strategy, including spending Euro 7bn on new projects in Brazil, the USA and Europe. He also pointed out that raw materials accounted for more than 70% of ThyssenKrupp Steel's hot-rolled coil production costs in 2007/08 compared to 56% in 2003/04.

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