SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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Casteel Commentary Highlights:

Happy New Year 2005. This month's Casteel Commentary identifies staffing and investment as the major issues facing the industry. This year's prediction as well as a score card for last year is included.

Persons Available

A1209 is looking for a job in the foundry industry, has a BS degree in Manufacturing Technology and administrative experience in the foundry industry.

Emergency Steel Scrap Coalition

AFS is a member of the Emergency Steel Scrap Coalition. A filing the Coalition submitted to the United States Trade Representative on how foreign scrap trade barriers are harming steel producers, users and consumers, and potential remedies is attached to this newsletter.

North Central T&O Meeting

The SFSA North Central Division will hold a meeting Milwaukee, WI February 25, 2005 on welder qualification. All SFSA members are welcome to attend any divisional meetings.

Market News

Business continued to expand in October. Shipments and booking from the SFSA Trend cards for carbon and low alloy products show growth from last year over 30% and high alloy castings exceed 100%. This is off of a low base and represents a significant recovery from the very depressed levels of 2002. Most of the growth occurred after the first quarter of 2004 as also seen in the Commerce report on orders and shipments of iron and steel castings. Steel products shipments remain high and stable and are limited by effective capacity in hot markets. Activity in the capital goods market show continued growth both in absolute terms and relative to inventories. Business has slowed in some markets at year's end and there may be a slower pace of order activity in the first half of next year but this is likely only to affect backlog while production is likely to remain close to capability for many plants.

Railroad freight car production is forecast to rise from 44,000 units in 2004 to 52,300 in 2005. Class 8 truck production could reach 310,000 in 2005 after a production of 255,000 in 2004. This indicates continued strong market demand.

Casteel Commentary

Strong business demands will continue to challenge our industry in 2005. As business levels have risen, steel foundries are not able to keep up with production requirements. In these times of short supply, the foundry has some leverage in pricing and delivery. Fundamentally though, profitability will be directly tied to throughput. The more we produce; the more profits can be made. Two related issues have made throughput problematic. The shortage of qualified people at every level and the lack of well maintained functioning equipment.

Our intern program shows some real interest on the part of several members to attract new people into the industry. We have 6 companies interested in participating. Even with the downsizing of the industry in the last 5 years, there are few people available that are experienced. We have suffered from excess capacity for about 20 years and that has limited our recruitment and now we face a daunting demographic hole. Few operations have the spread of ages and experience in the workforce to allow smooth generational change. Most operations have a few very qualified people within 10 years of retirement and perhaps a few newer people with less than 10 years of experience. Every day we fail to begin training new people is lost. The older employees will become unavailable and unless we have planned for their replacement we pay to relearn those lessons. We will need significant staff to engineer out labor and increase quality and reliability. We will need to be smart and reduce the need for skill and experience through process and equipment investment.

Our throughput and profitability is not only limited by available people but also by a lack of adequate capital investment. When the market asked us to crank up production, we discovered that our lack of ongoing investment failed to maintain our full production capability. Times of short supply offer pricing and profit opportunities. These are due to limited supply of finished product. This limited supply is due to an inadequate production. Production at this point is limited both by lack of people and lack of facility. If profitability is only limited by people, salaries increase to attract people from other parts of the economy. This may happen but it has not yet. This is because we are more limited by an inadequate installed capital equipment base.

This means that profits are available to those who can increase production in market areas most in short supply. A capital investment strategy is essential. It needs to target markets that have the most growth and supply shortfall. It should reduce significantly the need for people. This is not only for operating and maintenance people, but also engineering and supervisory people. It may be necessary to add staff, especially manufacturing or industrial engineers to exploit the market opportunities in an efficient and timely way. In any case, we must shift from a cost driven model of profitability to a throughput model and aggressively make the investments needed to maximize production in the most profitable market areas while this short supply situation remains. Surely, it looks as though this era of high relative demand and lack of North American supply will be true through 2005.

It should be a very Happy New Year for us in 2005

Predictions for the new year have been included for the past three years so we can consider last year's predictions and make some for next year.

Last year I predicted:

1. The SFSA Market forecast for 2004 is for 13% up but most of the increase is concentrated in railroad castings. Having failed this prediction twice, I will again predict stronger than expected demand in 2004. All of the market indicators and macroeconomic conditions indicate a very strong future market. I think our time has finally come for improving business.

The actual market increase was dead on the forecast. I would still give myself a half point because a weak first half gave way to a strong growth and our Market projection is still probably too conservative. Surely the main point, our businesses supply and demand is favorable for North American producers was true and business is clearly strong and strengthening. The SFSA Market Forecast is for another 13% growth.

For 2005, demand will slow some in the first half of the year but end strong. We will not be able to satisfy the market demand for steel castings.

2. Last year 2003, the prediction of continued unsettledness in plant closures proved accurate. This year 2004, there should be no more closures and there should be at least one additional large plant reopen and a number of small plants start up or enter the steel casting market from other markets due to the prior closures and lack of supply.

This turns out to be dead on. There were some large plants that reopened and no significant closures.

For 2005, we will be limited in many markets by our capability and capacity constraints pushing up profits and production. New plants and capacity will be planned. Existing plants will begin to make a few major equipment purchases.

3. In 2003, China receding as a threat to steel casting markets was not only not true but in 2004 China emerged as an even more potent and long term supplier in the North American steel casting market. The strong U.S. dollar, the lack of political will and leadership, and the nonmarket predatory practices of China have allowed them to steal substantial parts of the North American market. I do think that China will recede in the longer term, but this year they will continue to grow in the market place and will be an issue in the 2004 election. While the lack of good economic policy for encouraging manufacturing is more of a factor, it will be an easy political move to blame the loss of manufacturing on China.

This was basically true although I think you could argue that China began to recede in some markets. Certainly the major theme that China would become a political whipping boy for the loss of manufacturing capacity was true in the election.

For 2005, the lack of supply from North American producers will be exacerbated by a return of significant business from overseas. The lack of consistency will be unacceptable. Late deliveries, fluctuating quality, and the lower dollar will bring home business that looked gone forever.

4. The lack of qualified people was an easy and true prediction for 2003 and will be even worse in 2004. With plant closings and staff reductions, you would anticipate an availability of qualified people but the continued retirement of late career foundrymen

and the lack of younger early career people limits the pool of prospects. As business improves, it will not only be necessary to plan ahead for capital investment but also to recruit, promote and train the next generation of leaders for the industry.

This continues to be problematic for all industry and we are no exception. This systemic shortage of people at every level will be one of the more important business conditions that will challenge us the next decade.

For 2005, salaries will begin to rise for qualified people as we bid up the salaries to maintain the needed high levels of production. We will for the first year in 20 years hire some new graduates to train for our needs.

5. Prices will rise dramatically and remain high on alloys and scrap. The consumption of China, low costs for the past decade, and upturn in the economy will strain supplies. The twenty years of virtual price stability will not survive the next year. Producers like steel foundries will need to recover these and other higher costs to remain financially viable.

Wow! Why didn't I invest in the futures markets? These prices exceeded all expectations and appear to be stable at higher levels with a retreat in pricing projected.

For 2005, we will continue to face pricing pressure to maintain availability of raw materials. Producer price index rise depends on many nonmaterial inputs so the inflation will be muted but increase faster than expected. The ability of suppliers like us to raise prices after 20 years of stable and declining prices will challenge the OEMs.

6. The fall of the dollar will continue and make demand for North American goods increase and reduce imports.

The dollar has fallen and will probably trade in this range for some time, maybe trending downward as inflation and low interest rates cause a revaluation of the value relative to commodities and other currencies.

For 2005, currency valuation will become a political issue because of its affect on trade. Free trade requires market based currency values and the free flow of capital investment internationally. Countries like China that peg their currency and restrict foreign direct investment will not be able to sustain this policy.

7. Regulatory pressures will continue and no relief will be proposed favorable to manufacturing.

While there has been ongoing discussion about various reforms of liability, health care, tax rates, little action moved forward. There is an Assistant Secretary. A. Frink, for manufacturing with a comprehensive plan for improving the environment for manufacturing. There will be some action likely on tort reform, Medicare and Social Security.

For 2005, manufacturing issues will not be addressed as the strong economy improves the employment picture, companies are profitable, and politics focus on Iraq and Social Security reform.

Raymond Monroe

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2005

February	
25	North Central T&O Meeting, Milwaukee, WI
September	
10/14	SFSA Annual Meeting, Incline Village, NV

STEEL FOUNDERS' SOCIETY OF AMERICA
BUSINESS REPORT

SFSA Trend Cards (%-12 mos. Ago)	3 Mo Avg	Oct	Sep
Carbon & Low Alloy			
Shipments	35.6	31.7	41.5
Bookings	34.5	14.1	32.0
High Alloy			
Shipments	114.3	155.0	83.8
Bookings	119.1	150.0	85.0

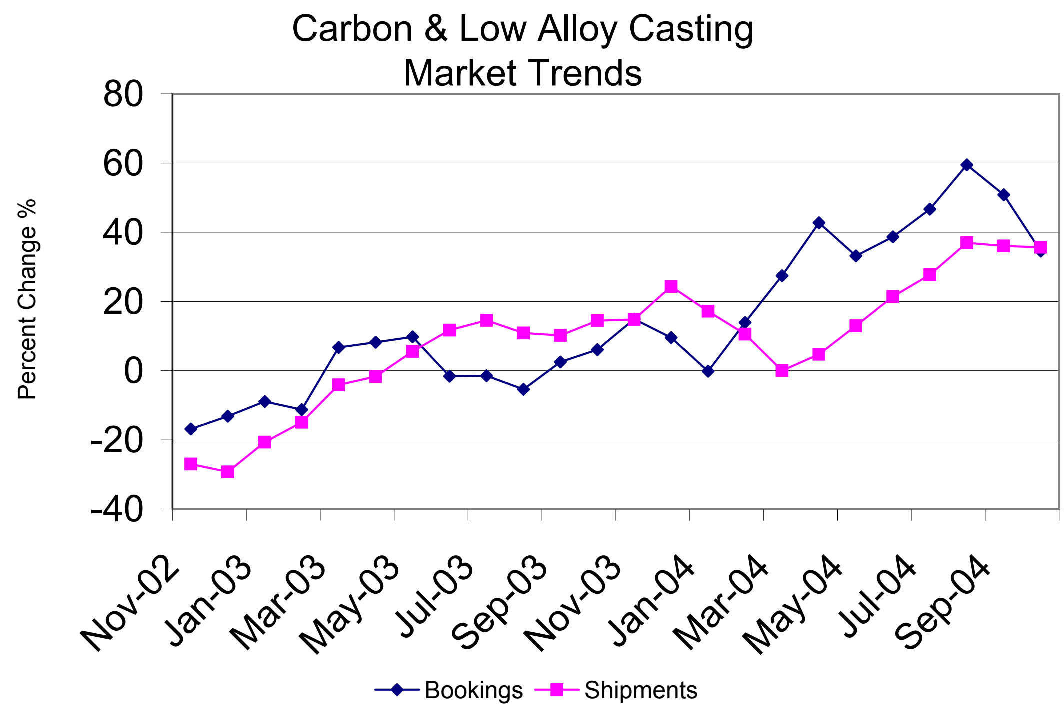
Department of Commerce
Census Data

Iron & Steel Foundries (million $)			
Shipments	1,601	1,616	1,592
New Orders	1,617	1,616	1,633
Inventories	1,869	1,906	1,868

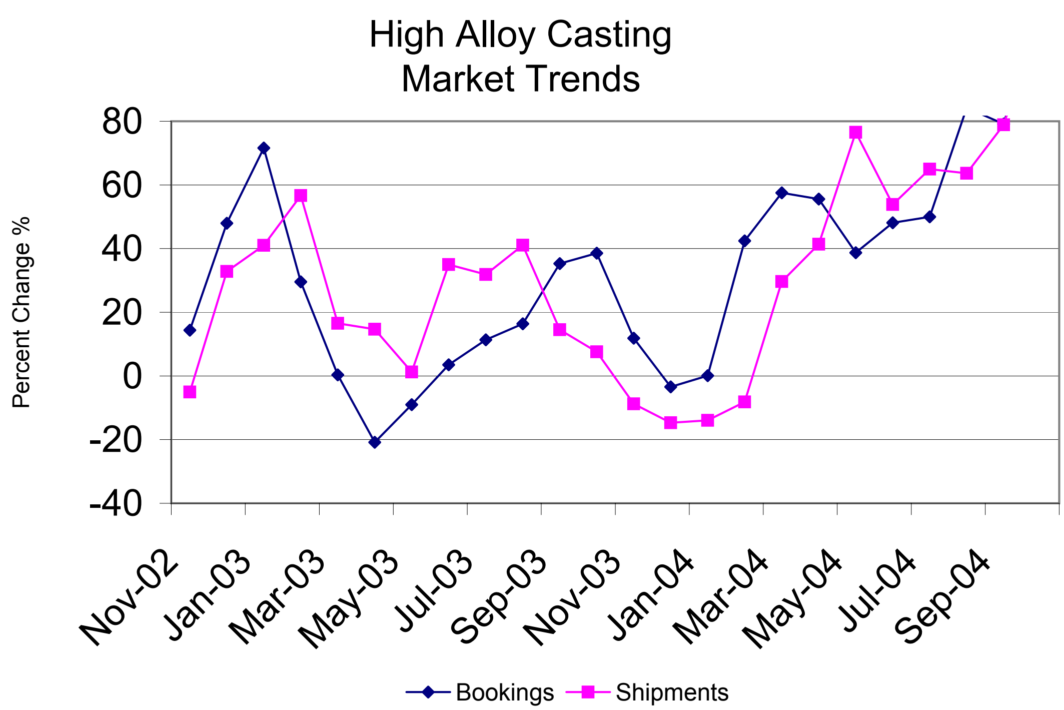
Nondefense Capital Goods (billion $)			
Shipments	64.6	65.6	63.6
New Orders	64.8	64.4	65.5
Inventories	109.4	109.6	109.1

Nondefense Capital Goods less Aircraft (billion $)			
Shipments	62.0	63.0	61.1
New Orders	62.2	62.3	63.4
Inventories	92.5	93.0	92.4
Inventory/Orders	1.49	1.49	1.46
Inventory/Shipments	1.49	1.48	1.51
Orders/Shipments	1.00	0.99	1.04

American Iron and Steel Institute			
Raw Steel Shipments (million net tons)	9.3	9.3	9.2



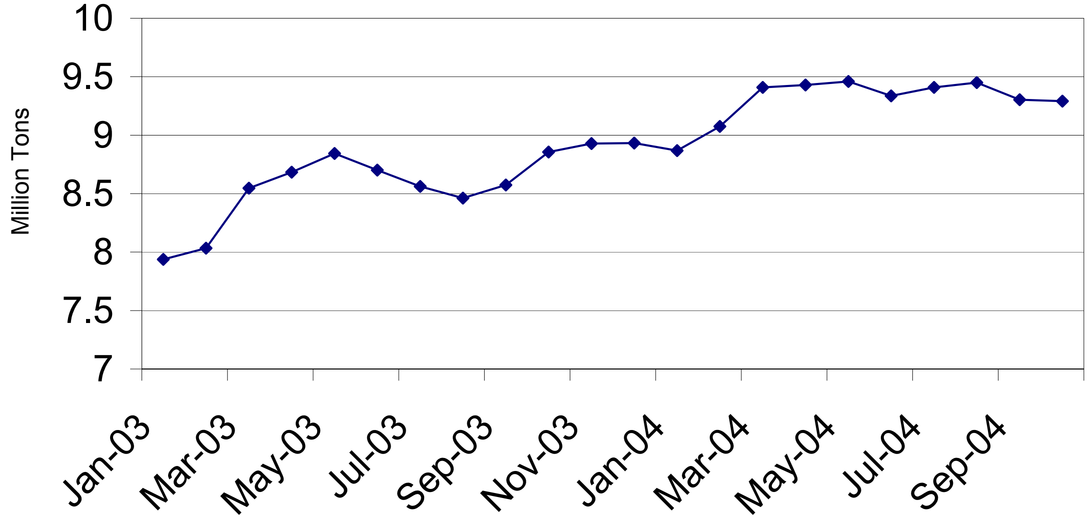
SFSA Postcards



SFSA Postcards

Raw Steel Shipments

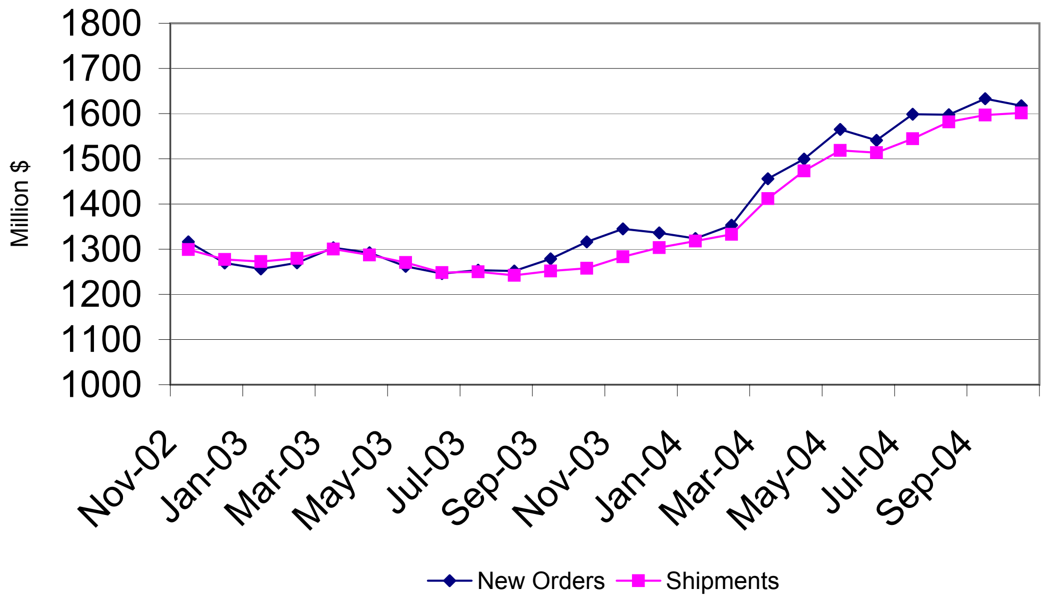
3 month average



AISI Data

Iron and Steel Castings

3 month average



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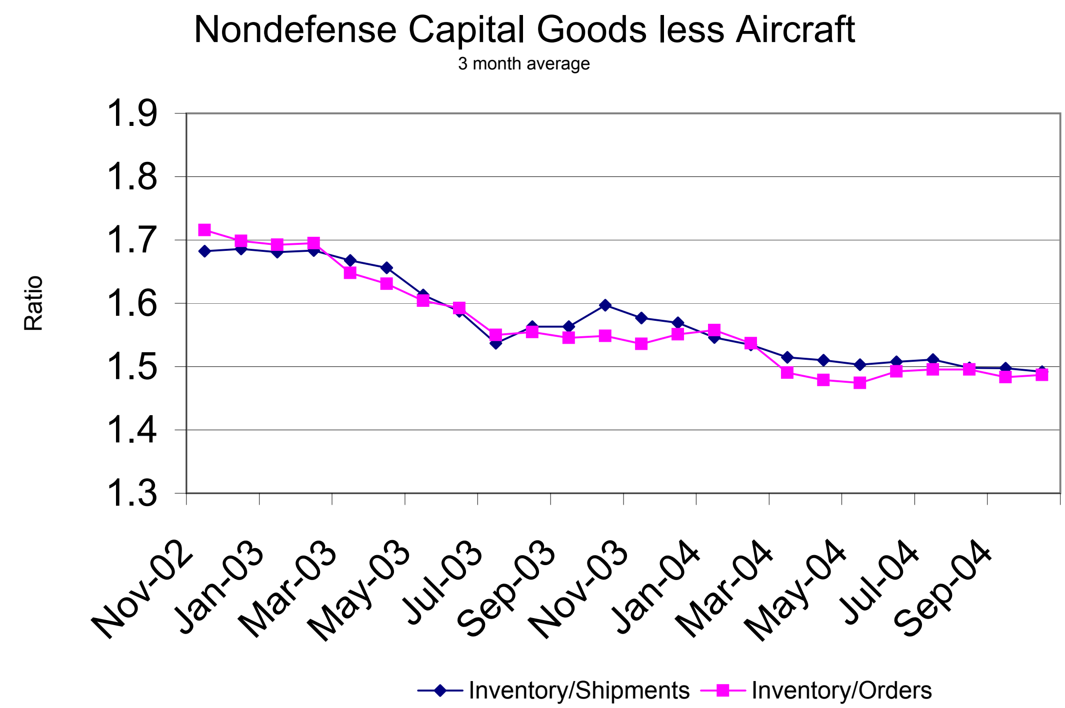
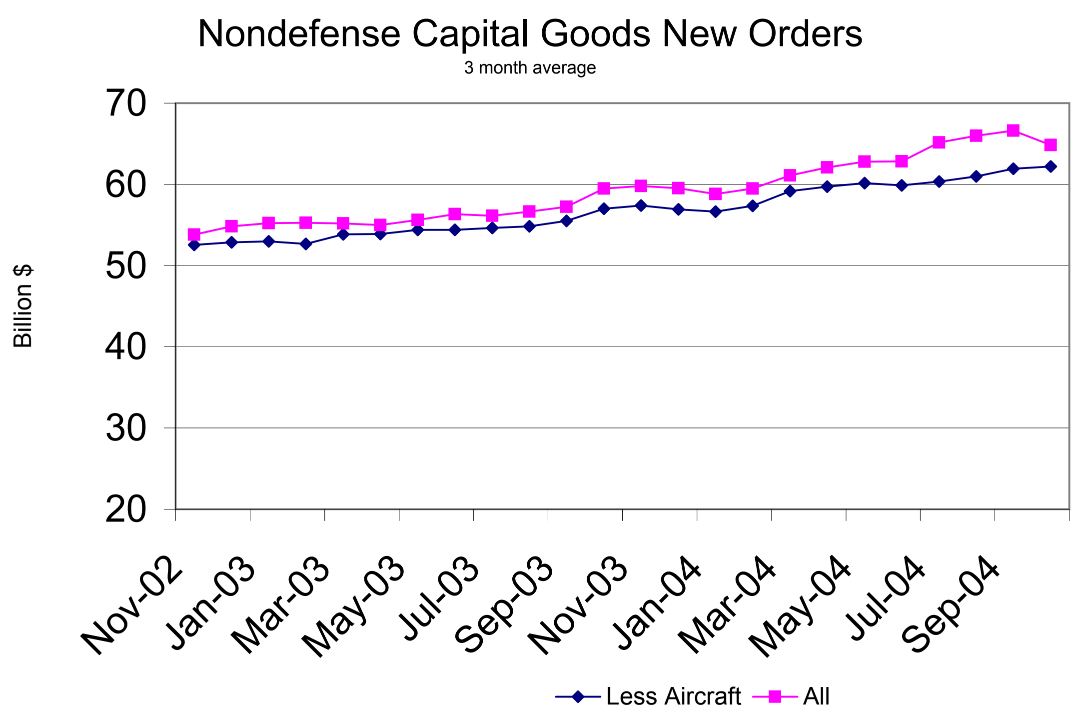


Department of Commerce



Department of Commerce

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PUBLIC DOCUMENT

VIA ELECTRONIC FILING

Ms. Gloria Blue
Executive Secretary, Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, D.C. 20508

Re: National Trade Estimate Report on Foreign Trade Barriers: Comments

Dear Ms. Blue:

On behalf of the Emergency Steel Scrap Coalition, we hereby submit these comments pursuant to the USTR Request for Public Comment with Respect to the Annual National Trade Estimate Report on Foreign Trade Barriers.[1]

I. INTRODUCTION

On November 24, 2004, the Office of the United States Trade Representative (USTR) requested interested parties to assist it in identifying significant barriers to U.S. exports of goods, services and overseas direct investment for inclusion in the National Trade Estimate Report. The request for public comment placed particular emphasis on impediments materially affecting the actual and potential financial performance of an industry sector.

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[1] *Request for Public Comment With Respect to the Annual Nat'l Trade Estimate Report on Foreign Trade Barriers*, 69 Fed. Reg. 68,437 (Nov. 24, 2004).

These comments are submitted on behalf of the Emergency Steel Scrap Coalition, a coalition comprised of a diverse group of steel scrap consumers and steel users, including construction companies, parts makers, forgers, foundries, and many others. The Coalition was formed in early 2004 to address the rapid surge in steel scrap prices that is being caused by foreign trade barriers and other restrictions imposed by U.S. trade partners.

II. FOREIGN SCRAP TRADE BARRIERS ARE HARMING STEEL PRODUCERS, USERS AND CONSUMERS

The imposition of duties and other barriers on the export of steel scrap from countries such as Russia, the Ukraine and Korea directly harm the members of the Coalition, as well as other steel producers and consumers. The elimination of these barriers on the export of steel scrap should be one of the highest priorities of U.S. trade policy.

For well over a year, steel prices have increased dramatically, due in part to a combination of rising U.S. steel scrap exports and the increase of foreign trade barriers imposed on the export of such scrap. U.S. steel scrap exports have almost doubled since 2000, growing from 6.3 million tons in 2000 to almost 12 million tons in 2003. But, while steel scrap exports have surged, our trading partners like Russia, the Ukraine, and Korea continue to restrict or even prohibit their own scrap exports to the detriment of U.S. steel producers and consumers. Today, *more than half of all scrap exported by the United States goes to countries that themselves have maintained export taxes or other barriers on steel scrap.*

For example, Russia, once the largest exporter of steel scrap in the world, now limits exports of steel scrap in order to confer an unfair advantage on Russian steel producers. As noted by the U.S. Trade Representative in the 2004 Report on Foreign Trade Barriers:

> In May 1999, Russia imposed an export tariff on ferrous steel scrap of 15 percent (amounting to not less than 15 euros per metric ton). Additional certification requirements on ferrous steel exports were adopted in 2001. At the time the export tariff was imposed, Russia was the world's largest steel scrap exporter. Russian exports of steel scrap have since declined significantly, at a time when world demand and prices have been rising. The export tax provides an artificial advantage to Russian steel producers by increasing domestic steel scrap supply, providing producers with an unfair advantage in Russia and in third markets. Moreover, it constricts global supplies of a key steel input, which has the effect of raising prices of steel scrap for otherwise competitive producers elsewhere, including those in the United States.[2]

The Ukraine also levies substantial taxes on exports of steel scrap, maintaining a 30 euro per ton tax on ferrous scrap and a complete ban on the export of non-ferrous metal scrap.[3] According to USTR:

> Ukraine imposed an export duty of 30 euros per metric ton on ferrous steel scrap during the second quarter of 2002. This export duty has contributed to a decline in scrap exports from Ukraine, at a time when global demand and prices for steel scrap are rising. The export tax provides an artificial advantage to Ukrainian steel producers by increasing domestic steel scrap supply, providing producers with an unfair advantage in Ukraine and in third markets.[4]

Numerous other countries have imposed controls or taxes on exports of steel scrap, further disadvantaging U.S. producers: Korea had until recently imposed a "monitoring" program that effectively barred the exportation of all steel scrap; the People's Republic of China imposes a 40 percent export duty on ferrous scrap; Vietnam has instituted a 35 percent export tax

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[2] United States Trade Representative, *2004 Nat'l Trade Estimate Report on Foreign Trade Barriers* – Russia at 406, 416-417 (Apr. 1, 2004).

[3] Inside US Trade, *U.S. Presses Scrap Export Tax Complaints in WTO Accession Talks* (Oct. 8, 2004), *available at* http://www.insidetrade.com/secure/dsply_nl_txt.asp?f=wto2001.ask&dh=161352302&q=scrap.

[4] United States Trade Representative, *2004 Nat'l Trade Estimate Report on Foreign Trade Barriers* – Ukraine at 476, 480 (Apr. 1, 2004).

on steel scrap; Egypt imposes an export tax of 30 euros on scrap; Malaysia imposes a tax of up to 30 percent; and Indonesia has a 10 percent *ad valorem* tax on steel scrap. The appendix to this submission lists the level of taxes or duties imposed on the export of steel scrap or other raw materials by country, based on information available to the Emergency Steel Scrap Coalition.

In all, more than 10 million tons of scrap exports are affected by these trade barriers, essentially removing this scrap from free trade on the world market. The result is a fundamental imbalance in the global scrap market, characterized by sharp pricing disparities. Most notably, while scrap prices in the U.S. have soared to historic highs, Russian steel producers are currently enjoying scrap prices that are substantially below global market prices. Russian experts report 14 million tons of scrap available for export -- but much of it is unavailable on the global market due to the various restrictions in place.

The sharp price increases and potential for steel scrap shortages are having significant, adverse effects on U.S. manufacturers, buyers and consumers of steel and steel products. Indeed, since half of the steel manufactured in the United States is made from scrap, dramatically high prices and unavailability of scrap threatens the viability of all metal working industries, particularly construction and automotive manufacturing.

III. POTENTIAL REMEDIES

The U.S. Government should take immediate action to reduce barriers and open scrap markets abroad. The Government should require that countries like Russia, the Ukraine, and Korea immediately drop duties and other barriers to exports of steel scrap or face the risk of action under U.S. trade laws. To accomplish this, we strongly urge USTR to negotiate removal of foreign barriers to steel scrap exports, including addressing these issues in the WTO negotiation process, or in the accession process for countries such as Russia and the Ukraine. A rapid solution to the problem of foreign trade barriers on the exports of steel scrap is essential to prevent additional and long-term damage to U.S. steel producers, users and consumers.

Please contact us if you have any questions regarding this submission.

Respectfully submitted,

Alan H. Price
Timothy C. Brightbill

Counsel to Emergency Steel Scrap Coalition

WRFMAIN 12277971.1

APPENDIX

SCRAP AND STEEL PRODUCTION EXPORT BANS, CURBS, OR TAXES (Updated November 2004)

WTO MEMBERS

Republic of Korea – ban on exportation of steel scrap was imposed in March 2004, and may have been withdrawn in September:

> Enacting its Policy for Supply and Demand Stability of Raw Materials, the government of Korea "decided to impose export restrictions on scrap iron and steel bars from Monday to soothe the shock of the rocketing international price of steel and of growing steel supply shortages in Korea." "Gov't to Impose Export Restrictions on Scrap Iron, Steel Bars," *The Chosun Ilbo*, Mar. 3, 2004 (available at http://english.chosun.com/w21data/html/news/200403/200403030010.html).

Argentina – decided to "temporarily retain 40 percent of scrap export revenue" – Colombia Trade Group Lobbies for Scrap Controls, AMM Feb. 27, 2004.

Dominican Republic – 5% tax on metalliferous concentrates, since 2002, according to WTO TPRM review.[1]

Egypt – scrap export tax of 30 euros per ton.

Gabon – As of 2001, a 3% duty upon the exports of manganese.

Ghana – As of 2001, a 6% duty upon the exports of manganese.

Guinea – GF25,000 per ton tax upon exports of scrap

Indonesia – Potential existing *ad valorem* tax upon exports of mining and metal products (*i.e.*, copper, lead, tin, platinum, and aluminum ores and concentrates). As of 2000, the tax was no more than 10% *ad valorem*.[2]

Malaysia – 2.5% to 30%, since 2001.[3]

People's Republic of China – Accession-approved schedule of duties:

Ferrous scrap products – 40%

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1 Roberta Piermartini, ERSD, "The Role of Export Taxes in the Field of Primary Commodities," WTO, available at http://www.wto.org/english/res_e/booksp_e/discussion_papers4_e.pdf.

2 OECD, Working Party of the Trade Committee, "Analysis of Non-Trade Measures: The Case of Export Duties," Jan. 31, 2003 (TD/TC/WP(2002)54/FINAL).

3 See WTO Piermartini paper.

Ferromanganese – 20%

Ferrosilicon – 25%

Ferrosilicomanganese – 20%

Ferrochromium – 40%

All copper products – 30%

Unwrought nickel – 40%

Sri Lanka – 1995 export tariff on finished steel products (see WTO Piermartini paper).

Tanzania – As of 1996, a 2% duty upon the exportation of minerals (see WTO Piermartini paper).

Thailand – 50% since 1999 (see WTO Piermartini paper).

United Arab Emirates – The United Arab Emirates (UAE) has imposed an export tax of Dirham 250 ($68.00) per ton on iron and steel scrap effective as of September 13, 2004.[4]

Venezuela – recently established export controls on steel scrap.[5]

NON-WTO MEMBERS/MEMBERS IN NEGOTIATIONS

Azerbaijain – ban on exportation of steel scrap:

> "The International Monetary Fund has recommended that Azerbaijan lift its ban on scrap metal exports, Deputy Chairman of the IMF Middle East and Central Asia Department John Wakeman-Linn told the press in Baku." "IMF asks Azerbaijan to lift scrap metal export ban," *Interfax News Agency*, Mar. 4, 2004 (available at http://www.interfax.com/com?id=5701847&item=Azer).

Russian Federation – taxes levied upon exports of steel scrap:

> "Of potential concern to some investors are export tariffs are levied on a range of goods, including oil, gas, forest products, ferrous and non-ferrous metals

4 Steel Village, "UAE Likely to Lift Export Tax on Iron and Steel Scrap," Nov. 2, 2004 (available at http://www.steelvillage.com/readTitle.cfm?ID=3219).

5 Colombia Trade Group Lobbies for Scrap Controls, AMM Feb. 27, 2004; "SA Country Considers Scrap Export Restrictions," *Recycling Today*, Jan. 29, 2004 (available at http://www.recyclingtoday.com/news/news.asp?ID=5271&SubCatID=35&CatID=9); "Venezuela scrap export ban said near," *American Metal Market*, Nov. 20, 2003 (available at http://www.findarticles.com/cf_dls/m3MKT/46-4_111/110456555/p1/article.jhtml).

and scrap, hides and skins." United States Trade Representative, *2003 National Trade Estimate Report on Foreign Trade Barriers* – Russia, at 8.

Ukraine – taxes levied upon exports of steel scrap:

> "Despite some progress, Ukrainian lawmakers are insisting on continuing some subsidies. On November 28, 2002 Ukraine's parliament overrode a veto from the President on a law that introduces a duty of 30 euros per metric ton of scrap ferrous metal in order to protect domestic steel makers." United States Trade Representative, *2003 National Trade Estimate Report on Foreign Trade Barriers* – Ukraine, at 3.

Additional discussions have been made with respect to iron ore, but no apparent tax has been levied.[6]

Vietnam – Export tax of 35% on steel scrap and 2 percent on iron ore.

PROPOSED SCRAP EXPORT BANS, CURBS, OR TAXES

Scrap export bans have been recently contemplated in the following countries:

Brazil: World Markets Research Center, "Brazil May Tax Steel Exports," (Mar. 4, 2003) ("The Brazilian government is considering introducing export taxes in order to control price hikes on steel and pig iron," according to the Development, Trade and Industry Minister, Luiz Fernando Furlan).

Colombia: *See, e.g.*, Diana Kinch. "Colombia trade group lobbies for scrap controls," *American Metal Market* (Feb. 27, 2004). In 1996, Colombia imposed a restriction upon the exportation of ferro-nickel.

Philippines: "Philippine Government Considers Ban on Scrap Metal Exports," *Recycling Today*, Oct. 14, 2002 (available at http://www.recyclingtoday.com/news/news.asp?ID=3041&SubCatID=85&CatID=13).

Kenya: "Metal Dealers Oppose Plan to Ban Exports," *The Nation (Nairobi)*, Mar. 5, 2004 (available at http://allafrica.com/stories/200403050347.html).

Zimbabwe: "Blanket ban on scrap metal exports," *The Herald (Zimbabwe)*, June 4, 2002 (available at http://www.herald.co.zw/index.php?id=10945 &pubdate=2002-06-04).

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6 United States Steel Corporation, Q3 2003 Earnings Conference Call (comments of Mark Parr: "All right. Just to follow on that in Europe, I've been reading recently about Ukrainian government indicating a fairly serious interest in putting an export tax on iron ore. I just, you know, Kosice is a large buyer of iron ore pellets from the Ukraine. I was wondering if there is anything at this point we need to be putting into our '04 outlook for a $3 or $4 a ton export tax out of the Ukraine?").

Additionally, **EUROFER** has requested that the **European Commission** look into the possibility of setting up "some export licence system for scrap will be emphasised so as to be able to monitor any surge {in scrap pricing}."