

SBB Steel Markets 2007

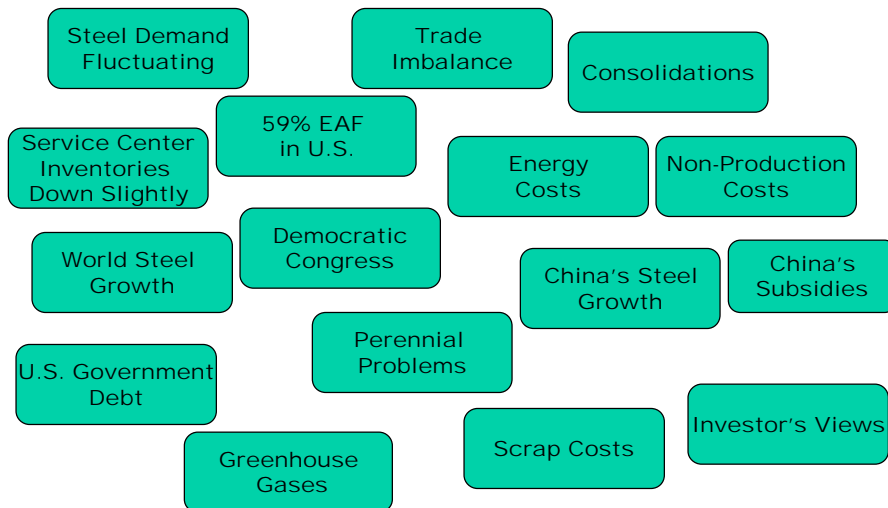


Steel - Global Impacts to North American  
Minimill Competitiveness

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Steel Manufacturers Association  
March 20, 2007**

SBB Steel Markets  
North America 2007

In March 2007, The Times they  
are a'changing...



*Summarized from Aldo Mazzaferro's, Goldman Sachs, Presentation to SMA Board of Directors, 2/16/07:*

- Sustainability is key
- Discipline = Confidence = Higher Valuations (*Investors fear volatility and surprises from rapidly changing prices, supply swings, unpredictable earnings*)
- Key questions going forward:
  - Will discipline hold long-term, and will it be global?
  - Will higher U.S. prices trigger large import response?
  - What are the long-term risks from of increased capacity in other markets?
  - Will China's production continue to expand its supply over demand?

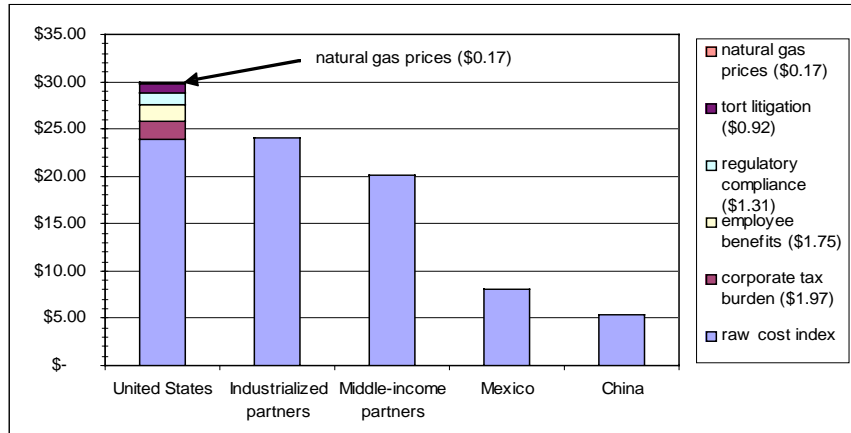
**Significant growth in demand was met by developing new supplies and by re-orienting to domestic markets scrap previously exported. EAFs have grown to 59% of U.S. steel production.**

Millions NT							Est.	
1991	2001	2002	2003	2004	2005	2006		
46	64	65	63	69	66	70		Domestic Demand
10	8	10	12	13	15	14		Export
<b>56</b>	<b>72</b>	<b>75</b>	<b>75</b>	<b>82</b>	<b>81</b>	<b>84</b>		<b>Total Demand</b>
54	62	64	65	67	67	67		Domestic Scrap Production
<1	1	<1	<1	<1	<1	<1		Domestic Pig & DRI
2	9	11	10	15	13	17		Import Scrap, Pig & DRI
0	0	0	0	0	0	0		<b>Balance</b>

← Market Clears →

Source: DJJ, 2/07

### Excess Burden of Structural Non-Production Costs on U.S. Manufacturers Relative to Major Trading Partners, 2005 (U.S. dollars per hour worked)



Source: Jeremy A. Leonard, *The Escalating Cost Crisis*, Manufacturers Alliance/MAPI and NAM, 2006

# CHINA!

- China trade surplus swelled to \$177 billion in 2006 – up 74% over 2005
- China trade surplus in 2001 (WTO joining year) was \$22 billion
- China currency has only changed by 5.9% since July 2005

**Crude Steel Supply in China, 2005-2007**

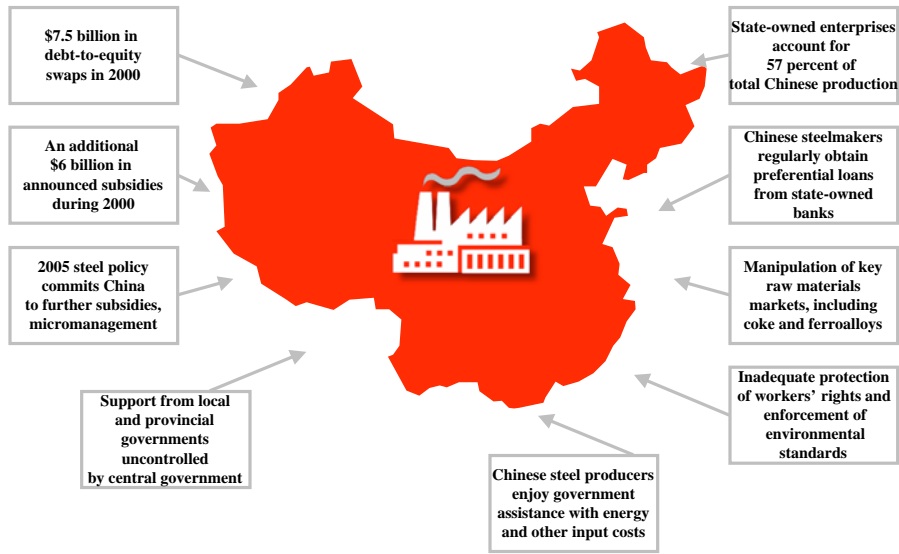
(million metric tons)

	2005	2006 (e)	2007 (e)
<b>Capacity</b>	450.0	530.0	599.0
<b>Production</b>	352.0	416.0	470.2
<b>Net Exports</b>	0.5	29.7	41.7

Source: Growell Research, "China Steel Capacity Forecast for 2006-2010"

\*The operating rate in 2007 is assumed to remain at 2006's level (78%)

### China Has the Most Heavily Subsidized Steel Industry in the World



### U.S. Steel Imports, 2002-2006

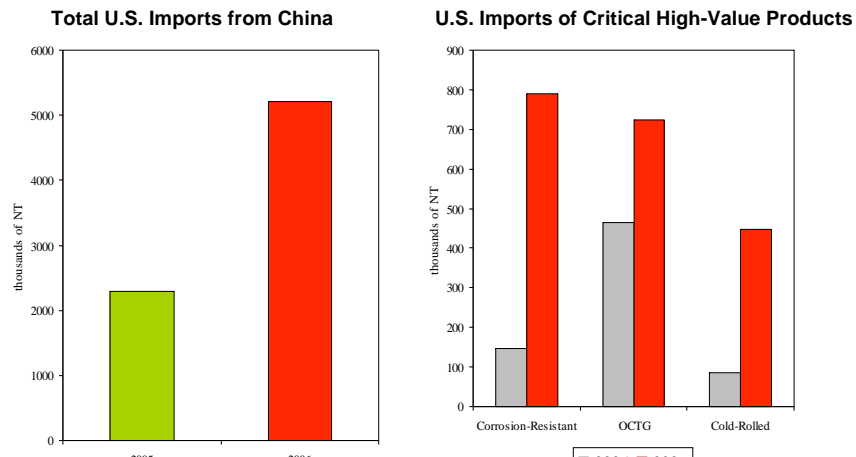
(quantity in metric tons, value in dollars)

	2002	2003	2004	2005	2006*
<b>Total Imports</b>	29,652,212	20,978,967	32,484,663	29,128,436	41,799,272*
<b>Imports from China</b>	749,798	582,898	1,676,120	2,153,804	4,853,454*
<b>Value from China</b>	\$258.7 million	\$264.5 million	\$1.097 billion	\$1.676 billion	\$3.454 billion*

Source: U.S. Census Bureau

\*Extrapolation to year-end based upon 11 months of data through November 2006

## Within the Last Year, U.S Producers Have Been Hit with a Flood of Chinese Imports



Source: AISI and IM-145 data

## Aggressive Policy Measures Are Necessary to Prevent China from Causing a Major Crisis

- Enact real China legislation (apply CVD law to China, address currency manipulation, WTO reform)
- Strict enforcement of U.S. AD/CVD laws (appearance at HR hearing, letters, Congressional hearings)
- Make clear that Congress will not accept any new agreements (Doha, Korea FTA, etc.) with trade law weakening

## But, It's Not China Alone

**US Steel Import Statistics**  
Quantity in metric tons

Trading Partner	2005	2006	US Import Increase
<b>Cummulative</b>	29,128,436	41,071,051	11,942,615
<b>Europe (total)</b>	8,875,707	13,286,356	4,410,649
<b>China</b>	2,153,804	4,889,683	2,735,879
<b>Russia</b>	1,428,946	3,302,358	1,883,412
<b>Taiwan</b>	551,120	1,699,692	1,148,572
<b>Ukraine</b>	587,472	1,586,983	999,511
<b>Turkey</b>	1,223,244	2,174,663	951,419
<b>Korea</b>	1,641,954	2,534,556	892,602
<b>Japan</b>	1,252,291	1,905,551	653,260
<b>Egypt</b>	172,169	719,459	547,290
<b>Australia</b>	532,698	1,058,222	525,524
<b>India</b>	610,394	1,069,990	459,596
<b>Netherlands</b>	454,307	858,852	404,345

## Greenhouse Global Gases

- Effective Climate Change Policies must promote low carbon intensive technologies
- Cap & Trade programs are a failure due to demand destruction (Ask the EU guys!)
- Making steel in countries not subject to greenhouse global gas program is NOT a solution. Global problems require global solutions.

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### Conclusion

- Need aggressive policy measures to prevent China from causing a major crisis
- It's still a cyclical business (percent utilization, scrap, inventories, etc.)
- Still no Global Subsidies Agreement – massive subsidized growth continues
- Greenhouse global gases require a global solution!
- When will inventories return to normal levels?
- Consolidation will continue
- China! China! China! (everything else is only an embellishment)
- Unknowns (interest rates, housing starts, economic growth, imports, customer base, pricing???)