NAFTA Steel Industry Pulse

North American Steel Trade Committee
Ottawa
June 15-16, 2010
Key Topics

- Economic and Financial Update – World and NAFTA Steel Market Conditions
- China Trade and Industrial Policies
- Components of an Effective Manufacturing Agenda
First Topic: Economic and Financial Update – World and NAFTA Steel Market Conditions

- Demand for steel remains at low levels, particularly in the NAFTA region. Indeed, demand will remain significantly below pre-crisis levels for years to come.

- In light of these facts, even a relatively small volume of dumped and subsidized imports would have a devastating impact on NAFTA producers.

- Accordingly, NAFTA governments must be alert to surges of unfairly-traded steel and steel-intensive products.
Stock Prices for American Steel Producers Continue to Show the Effects of the Economic Crisis

Closing Price of Dow Jones U.S. Iron and Steel Index, Jan. 2007-May 2010

Source: Google Finance.
North American Steel Production Remains Below Historic Norms

Crude Steel Production

Millions of MT

After falling to below 50%, NAFTA capacity utilization has recovered to around 70%, but is still well below historic levels.

2009 was only the second year since 1963 in which North America produced fewer than 9 million cars and trucks.

Recent gains in North American car and truck production notwithstanding, it is projected that it will take up to five years to return to pre-crisis "normal" levels.

The U.S. Construction Market Remains Weak

U.S. Single-Family Housing Starts, Q1 2004 through Q4 2009

- Foreclosures remain a problem for both residential and non-residential construction.
- While residential construction is projected to increase, it is not expected to regain its 2008 level until 2013.
- The value of non-residential construction put in place fell by 9% from 2008 to 2009, and is projected to continue falling through 2011.

Source: U.S. Census Bureau
Canada: Economic Conditions Moderating

Bank of Canada Senior Loan Officer Survey: Q1 2010

Ivey Purchasing Managers Index Since January 2007

Canada: Manufacturing Inventories Through February 2010

Canada: Manufacturing Sales Through February 2010

Sources: Bank of Canada, Richard Ivey School of Business, Statistics Canada
Mexico has started to emerge from an historical crisis. Industrial production (IP) has started to grow after 21 consecutive months of negative growth. IP has now seen positive growth rates for 3 straight months.

Source: INEGI
Mexico: Manufactured Exports Key to Recovery

Mexico: Exports, 2005 - 2009
(Annual rate of growth - %)

For nearly a year, exports had negative growth rates. Now, they are growing at +29%.
Manufactured exports: +25%.
Non-automotive exports: +12% and represent 75% of total.
Automotive exports: +84% and represent 25% of total.

Source: INEGI
Mexico: Investment and Employment Still Lagging Behind

Mexico: Investment, 2006 – 2010 (February)
(Index: 2003 = 100)

Machinery & Equipment

Construction

Employment in Manufacturing Sector, 2006 – 2010 (Ene)
Index 2003 = 100

In annual real terms, investment in January was still registering negative growth: -4.8%
Machinery and equipment: -9.4%
Construction: -1.9%
Capital good imports: -9.9%

Source: INEGI
Worldsteel Short Range Outlook Shows that, Despite an Improvement from 2009 to 2010, NAFTA Market Conditions Remain Soft

### United States

<table>
<thead>
<tr>
<th>Million MT</th>
<th>2009 (e)</th>
<th>2010 (f)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Steel Use</td>
<td>65.1</td>
<td>81.8</td>
<td>25.5%</td>
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<tr>
<td>Finished Steel Use</td>
<td>57.4</td>
<td>72.7</td>
<td>26.5%</td>
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<tr>
<td>Exports</td>
<td>8.5</td>
<td>11.3</td>
<td>32.9%</td>
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<tr>
<td>Imports</td>
<td>12.9</td>
<td>13.7</td>
<td>6.2%</td>
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### Canada

<table>
<thead>
<tr>
<th>Million MT</th>
<th>2009 (e)</th>
<th>2010 (f)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Steel Use</td>
<td>10.6</td>
<td>13.1</td>
<td>23.9%</td>
</tr>
<tr>
<td>Finished Steel Use</td>
<td>9.5</td>
<td>11.8</td>
<td>23.9%</td>
</tr>
<tr>
<td>Exports</td>
<td>4.9</td>
<td>6.4</td>
<td>29.6%</td>
</tr>
<tr>
<td>Imports</td>
<td>6.0</td>
<td>7.7</td>
<td>28.3%</td>
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### Mexico

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<tr>
<th>Million MT</th>
<th>2009 (e)</th>
<th>2010 (f)</th>
<th>Change (%)</th>
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</thead>
<tbody>
<tr>
<td>Crude Steel Use</td>
<td>17.7</td>
<td>22.1</td>
<td>24.5%</td>
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<tr>
<td>Finished Steel Use</td>
<td>13.9</td>
<td>15.5</td>
<td>10.9%</td>
</tr>
<tr>
<td>Exports</td>
<td>2.0</td>
<td>2.4</td>
<td>20.0%</td>
</tr>
<tr>
<td>Imports</td>
<td>3.2</td>
<td>3.6</td>
<td>12.5%</td>
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</table>

Survey of the Short Range Outlook  
Spring 2010 NAFTA Region

Apparent Steel Use (ASU)

<table>
<thead>
<tr>
<th>(Million MT)</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009 e</th>
<th>2010 f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished Steel</td>
<td>149.0</td>
<td>138.3</td>
<td>155.7</td>
<td>141.2</td>
<td>129.7</td>
<td>80.9</td>
<td>99.9</td>
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From 2004 to 2007 (the last four full years before the economic crisis began), apparent steel use in the NAFTA region averaged 146 million MT/year. This year’s forecast of 100 million MT is 32 percent below that average.

Source: Worldsteel Economic Studies Committee
In 2010, Apparent Steel Use in the NAFTA Region Will Be
More than 30 Percent Below Pre-Crisis Levels

Apparent Steel Use in NAFTA Region (millions of MT)

Even if apparent steel use in the NAFTA region recovers to 107 million MT by 2011, as currently projected by the World Steel Association, it would still only match the 1993 consumption level – and be only 76% of the level in 2007.

Source: Worldsteel
Global Steel Consumption Has Only Begun to Recover

Global Apparent Steel Consumption (Annualized)

Source: World Steel Dynamics
World Steel Capacity Continues to Grow, Even Though the Economic Crisis Delayed Some Projects Scheduled for 2009-12

World Crude Steel Capacity 2000-2012

Source: Worldsteel
In Advanced Economies, Apparent Steel Consumption Is Not Forecast to Return to Q2 2008 Levels until Q2 2012.

Advanced Countries’ Apparent Steel Consumption on an Annualized Basis

Q2 2008: 503 million MT/year

Discussion Questions Regarding World and NAFTA Steel Market Conditions

- What are the prospects for the world and NAFTA economies going forward?

- To what extent has the lengthy and severe economic downturn left NAFTA producers vulnerable to material injury by reason of unfair trade?

- What steps can and should NAFTA governments take, both individually and collectively, to prevent trade barriers and market-distorting practices from hurting NAFTA steel producers?

- What additional steps could NAFTA governments take to preserve and strengthen the antidumping and countervailing duty laws?
Second Topic: China Trade And Industrial Policies

- If Chinese mercantilism continues to succeed, other countries will undoubtedly view China as a model to emulate.
- Chinese mercantilism has also effectively shut NAFTA steel producers out of the world’s largest market.
- China’s growing production – even during the recent downturn and especially with respect to indirect trade – shows that it presents a unique threat to NAFTA producers.
- NAFTA governments should confront China’s mercantilist practices.
- NAFTA governments must strictly enforce trade rules and insist that China comply with all of its WTO obligations.
China’s Share of World Exports Surged Over the Last Decade

Shares of World Exports of Manufactured Goods

Data for 2009 and 2010 are not available yet, but preliminary indications are that the negative trend for NAFTA that we experienced in 2001-2008 is continuing.
Our Manufacturing Crisis Increasingly Appears to be a China Crisis

China’s Percentage of the U.S. Manufacturing Trade Deficit with Non-NAFTA Countries

Source: TradeStats Express.
China Is Manipulating the Value of Its Currency

Indexed Value of the Yuan and Euro, 2002-2009

Yuan/S

Euro/S

Source: U.S. Federal Reserve Board.
Chinese Mercantilism Places NAFTA Producers at a Significant and Unfair Disadvantage

- Chinese steel producers benefit from government support.
- China’s currency manipulation supports exports and blocks imports.
- China prohibits foreign companies from controlling Chinese steel producers.
- China manipulates raw material markets to help its steel producers.
- China’s legal system makes it easier for Chinese companies to engage in customs fraud and other efforts to circumvent AD/CVD relief.
- Chinese regulatory system – particularly with respect to environmental, labor, and safety issues – unfairly aids Chinese steel producers.
- China manipulates its VAT rates in a manner designed to promote exports of certain goods.
Although the Rest of the World Slashed Steel Production Last Year, Chinese Production *Continued to Grow*

**Percentage Change in Crude Steel Output, 2008 to 2009**

Last Year, China Accounted for *Almost Half* of Total World Crude Steel Production

**China’s crude steel production**

**Chinese crude steel production as a percentage of total world production**

Source: World Steel Dynamics, Inside Track # 77 (May 30, 2007); World Steel Dynamics, Inside Track # 102 (Jan 15, 2010).
Over the Last Three Years, China’s *Increase* In Steel Production Far Exceeded *Total* 2009 Steel Production In Both Japan And The United States

Source: Data for China taken from World Steel Dynamics, Inside Track # 102 (Jan. 15, 2010). Data for Japan and NAFTA taken from the World Steel Association web page.
In 2009, China Was Responsible for Over Half of the U.S. Indirect Steel Trade Deficit

China as Percent of Total U.S. Indirect Steel Trade Deficit
2001 - 2009

Sources: US Department of Commerce for trade $ balances; AISI estimates for indirect steel trade (data in process of being updated)
Key Agenda Items for Dealing with China

- Addressing currency manipulation
- Effective enforcement of AD/CVD laws – including application of CVD laws to currency manipulation
- Dealing with customs fraud and other efforts to circumvent AD/CVD relief
- Dealing with regulatory disparities
- Challenging China’s industrial policies and other market barriers
- Bringing more WTO cases
Discussion Questions Regarding China Trade and Industrial Policies

- NAFTA governments have taken a number of steps to deal with China’s mercantilist policies. Which steps have been most effective? Which have been less effective? What lessons should we draw from our experience so far?

- What measures could NAFTA governments take to address the primary concerns on the agenda of NAFTA producers? Of these measures, which should be the most immediate priority?
Third Topic: Components of an Effective Manufacturing Agenda

- Time after time since World War II, North American policymakers have sacrificed the interests of their manufacturers for other goals.

- Such a policy is no longer sustainable. To unwind the current global imbalances that are disrupting the world economy, NAFTA countries need a stronger manufacturing base.

- NAFTA manufacturers remain highly competitive in many areas—such as steel. Indeed, given the aggressive and often unfair competition they face from abroad, NAFTA producers must be extremely efficient merely to survive.

- Over time, however, it is simply unrealistic to expect private companies to survive competition from government-backed entities unless we have more favorable policies for manufacturers in the NAFTA region.

“The manufacturing sector generates significant benefits for society.

Manufacturing creates substantial additional economic activity, is responsible for *70 percent of all research and development* spending performed by industry in the United States, and with consistently improving productivity creates wealth that can be utilized elsewhere in the economy.

Manufacturing jobs have *higher pay and benefits* than similar jobs in other sectors.

Manufactured goods *represent 69 percent of exports*, which is particularly important as increasing exports is critical to reducing our trade deficit and supporting economic growth.

*Our national security* requires that we maintain the ability to manufacture certain goods to defend ourselves militarily.

Finally, production jobs in manufacturing can *provide a career path to the middle class* for people for whom a four-year college degree is not the best fit.”
U.S. Manufacturing Trade Balance with Non-NAFTA Countries

- NAFTA steel strongly supports a rebalancing of global structural imbalances (with a significant increase in NAFTA exports of manufactured goods).
- These huge, unsustainable trade imbalances have caused millions of manufacturing job losses in the North America, and contributed to the recent world economic crisis.

Source: U.S. Census Bureau.
Since 2000, U.S. Manufacturing Output Has Been Flat Despite Continued Gains in Productivity

Source: Federal Reserve Bank of St. Louis Economic Database. Productivity is determined by dividing total U.S. manufacturing output by the total number of U.S. manufacturing jobs.
Average Annual Growth of Research and Development Expenditures for Selected Countries, 1996-2007

Developed Countries Are Losing Ground to Asian Countries That Place More Emphasis on R&D

Trade Balance in High-Tech Goods, 1995-2008

Source: National Science Board, Science and Engineering Indicators 2010. Asia-9 includes India, Indonesia, Malaysia, Philippines, South Korea, Singapore, Taiwan, Thailand, and Vietnam. China includes Hong Kong. EU excludes Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta, and Slovenia.
There Has Been Too Little Investment in Infrastructure

- A 2009 Report from the American Society of Civil Engineers ("ASCE") gave the nation’s infrastructure a grade of "D."

- The ASCE estimates that the United States would have to spend $2.2 trillion over five years to bring its infrastructure to "good" condition.

- In 2008, the Congressional Budget Office testified that the United States needed to increase its transportation infrastructure spending by $20 billion per year in order to "keep transportation services at current levels."

- Canada infrastructure gap estimated at $200 billion

- Meanwhile, China is making enormous investments to upgrade its own infrastructure.
Components of an Effective Manufacturing Agenda

- Strong enforcement of trade laws
- Efforts to increase access to foreign markets for NAFTA producers
- Encouraging investment in research and development
- Increasing infrastructure investment across the NAFTA region
- Ensuring that any new climate change legislation does not undermine competitiveness of NAFTA producers
- Addressing human resource concerns
- Addressing energy needs of industrial users – availability, reliability, and competitive costs
Given the ongoing weakness in the global and NAFTA economies, the following points should be addressed in a proactive manner:

- Ensuring strong and effective enforcement of trade laws throughout the NAFTA region
- Ensuring that trade laws are not undermined through international negotiations or WTO litigation
- Adopting a more effective approach to dealing with market-distorting practices in China
- Addressing fully and effectively the international trade and investment dimension of the climate change issue
- Developing and implementing an agenda that recognizes the importance of manufacturing to the long-term prosperity of the NAFTA region