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## “Last One Out, Turn Off the Lights?”

A few weeks ago, we received a letter from our British friend at the international website, [www.steelonthenet.com](http://www.steelonthenet.com). He asks a question about steelmaking in the UK that resonates here at home:

What can we in the UK do about steel manufacturing, is the essence of my question. We have no cheap coal here. No iron ore. Compared with Central and Eastern Europe we have very high labour costs. We pay a lot for our energy compared with steelmakers in continental Europe. So why on earth are we still making steel here?

He observes further that these questions are particularly acute with regard to integrated steel production.

These issues are, of course, continually front and center with U.S. producers. We have plenty of coal, but we rely more and more on foreign iron ore and pig iron. We have much higher labor rates than virtually all our foreign competitors. In addition, we must compete against companies that often benefit from government subsidies or that sell their products here for less than their cost of production.

A bit of history: After World War II, we began receiving rapidly increasing imports of cotton textiles, principally from Japan. As we were then hoping that the war-torn countries would build their economies, we were fairly pleased to see this growing trade. However, by the 1960's, things began getting out of hand. More and more countries began shipping cotton textiles to the U.S. and the import penetration of our market grew and grew. A variety of international agreements sought to curb this growth, and they did somewhat. But the trends were inexorable. Imports of wool and manmade fiber textiles joined the parade, as did apparel made from these products. Today, our textile and apparel industries are shadows of their former selves. Employment was 2.4 million in 1973; now, it is just over 400,000.

What should we be doing to prevent the same thing happening with the steel industry?

Our British interlocutor had a number of proposals for the UK, many of which would be familiar here: Government assistance for training and R&D, government investment in improvements to energy and transportation infrastructures, and rigorous enforcement of fair trade on imports. He suggests that the companies help themselves by focusing on adding value to imported semi-finished steel, moving to more reliance on electric arc production and seeking flexibility in labor agreements that could adapt costs to shifts in plant utilization. However, in the end, he asks whether the handwriting is now on the wall -- UK producers may well have to relocate semi-finished steelmaking to lower cost countries, perhaps with international partners.

Our own thoughts, at least as they would pertain to the situation here in the U.S., are these:

- Government assistance to the industry for training and R&D would, of course, be welcome, as would improvements in infrastructure. But we wouldn't count on government largesse, particularly in our present economic woes.
- Enforcement of the trade laws is an absolute must; our industry should not have to compete against practices that are universally thought to be unfair.
- Developing new materials, specifications, quality controls and delivery systems will be an important way to keep customers by offering added value. However, we cannot ignore the fact that much of our customer base needs commodity type products, and we must compete in that market, too.
- Improvements in labor contracts to permit added flexibility would be very welcome and could be structured to benefit both workers and companies. It's an idea that offers promise, but it would require courage and farsightedness on both sides of the negotiating table.
- Relying more on EAF production may be useful, but it perhaps suggests that our industry should be going out of the integrated mill business. We believe this would be a terrible mistake – some grades and qualities are still not available from scrap charged production. Indeed, eliminating integrated production would undermine the very good suggestion that producers seek to develop new kinds and quality of products to enhance their competitive position. In the end, however, we must recognize that the outcome on this issue will largely be determined by the economic interests of the producers and the market place.

These questions should be of great concern to all companies in the steel industry and to their customers.

Here are the cost data for this month:

- Scrap and Pig Iron Prices for #1 dealer bundles and #1 busheling (Chicago) continued to drop, to \$400 and \$410 per mt, respectively. The declines have been going on for four months, but in small stages; the prices are still at high levels, historically. The spot price for Brazilian pig iron (cif New Orleans) was \$450 per mt, unchanged from last month.
- Natural Gas The Nymex contract price declined a bit, to \$4.46 per mmBtu. These, too, are at historic levels, but this time on the low side.
- Ocean Freight The Baltic Capesize Index declined significantly in July, to 1839. This is one of the lowest readings since 2001, and it could be reflecting a drying up of demand for bulk cargo carriage, like iron ore.
- Exchange Rates Things seem to be looking better for the Eurozone, and the euro strengthened significantly, up four cents to \$1.29. The pound was also up a nickel, to \$1.53. The Canadian dollar lost two cents to \$0.95.

As we said, the issues we have discussed this month should provoke your thinking. Let us in on your views. This letter, like all our others, will be posted on our website, [www.coreysteel.com](http://www.coreysteel.com) and on [www.steelonthenet.com](http://www.steelonthenet.com).