



FROM THE PRESIDENT

DAVE PHELPS:

As the second quarter wanes and we approach the summer months, it is troubling that the normal second quarter seasonal improvement of the steel market has not happened this year. With all the optimism that the stimulus legislation created early in the year, it appears that the cynics were more on target, that the government cannot spend money fast enough in a short enough period to have a significant impact on the economy in the short term.

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AIIS CALENDAR:

- ▶ *HOUSTON, September 23- 24 2009*
AIIS Gulf Region Conference
- ▶ *NEW YORK, November 9 2009*
AIIS Annual Dinner and Conference

MARKET UPDATE

Some believe that the general economy has begun to show some improvement and according to some analysts the steel market has likewise seemingly stabilized. To us, the picture is not so clear.

First, the economy. Unemployment hit 9.4% in May, with a net job loss of another 345,000 jobs. Optimistic analysts looking to "make a silk purse out of a sow's ear," pointed to the fact that the net loss in jobs was half of the prior month – some silver lining.....Of course, there were more job losses in the manufacturing sector (156,000) and ominously, of course, more to come with the bankruptcy filings of Chrysler and GM which will obviously also affect the downstream parts manufacturing companies as well. Others outside manufacturing will also be affected, including distributors and others in the logistics chain. How large the impact of the GM and Chrysler bankruptcies will be can only be the subject of speculation at this point, but clearly, it will be more bad news for manufacturing employment in June and July.

There are some encouraging data to report though. In April, construction spending increased unexpectedly at the fastest rate in eight months and existing home sales were strong. Even auto sales came in at 9.83 million units annualized – higher than anticipated, but surely nothing that points to a rebound.

With shrinking GDP and expectations that growth will not return at earliest until very late in 2009, there appears to be little reason to believe that the economy, and therefore the steel market, will improve much before the end of the year. As skeptics suggested when the large stimulus spending bill became law early in the year, federal government spending – notwithstanding its focus on so-called shovel ready projects – is structurally incapable of injecting that much money that quickly into the economy.

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CHINA TRADE - VAT REBATES

During the hot steel market in China and the world, the Chinese government reduced the Value Added Tax (VAT) export rebate levels on most steel products and even eliminated some rebates completely. Some products, like HR and slabs actually were charged an export tax in order, according to the Chinese Government, to slow export growth and keep more steel in the domestic market. Effective June 1, the Chinese Government has reinstated the rebate of the taxes for some steel products. The new rebate will be 9%. Obviously, as noted in last month's Steel News, China's exports of steel have plummeted due to the world-wide recession, turning China again into a net importer of steel. The sentiment in China is that even with the 9% rebate for exports, the world market will have to improve for exports to return to healthier levels. The rebate will affect carbon HR; electro-galvanized sheet; high speed flat products; silico-manganese bar, rod and wire; carbon and alloy bar and rod; angles and sections; stainless and alloy HR, sheet.

There has been a lot of confusion about the export tax rebates, China and the assertion that these rebates are subsidies. They are not. The US is virtually the only country in the world that does not have a VAT. Under World Trade Organization rules, the VAT taxes can be rebated on exports and charged on imports. China, which has a 17% VAT for its own internal purposes – VAT often take the place of a corporate income tax – has rebated as much as 13% of the tax when the product is exported. It was within the WTO rules for China to eliminate that rebate on many products last year, or reinstitute the tax rebate as it has just done. It can, without violating its WTO obligations, rebate the entire 17%. If you need more information on this, contact AIIS Headquarters.

FROM THE PRESIDENT

So, with many steel plants around the US idled for the summer – some longer – and the auto industry also in the doldrums, the third quarter is not setting up to be a record setter at this point.

At AIIS, we are moving into the webinar world, with our first webinar on July 9 at 12:15 PM. The issue is the new Customs reporting requirements, 10+2. This change is of great importance to all importers, customs brokers and others involved in the Customs side of the importing process. The instructors will be Mary Jo Muoio - LCB, CCS - Senior Vice President, Barthco Trade Services, division of OHL and President of the National Custom Brokers Freight Forwarders Association and Steven Baker, chairman of our AIIS Customs Committee and member of the AIIS Board of Directors. With the new requirements in place already, it is critical that our members educate themselves about the changing world of Customs requirements – after all, penalties will surely be assessed at some point for those who do not adhere to the new rules. This is the first webinar for AIIS, go to aiis.webex.com for more information and to register.

We are also continuing to plan for top notch conference events, with the next event on the calendar, the Gulf Region Fall Conference and Golf Tournament, scheduled for September 23-24. We look forward to seeing you there.

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MARKET UPDATE (CONT)

In the May issue of *Steel News*, we reported on leading economists' claim that the Fed's easy money policy will lead us out of the recession. This month, two more economists – while not directly refuting the “monetarist” view directly -- suggest that the economy is approaching a “V” shaped recovery. While acknowledging that the credit crisis is real and causing a drag on businesses, they point out that companies have other ways to raise cash, and they are using them right now. With profits up in the first quarter of 2009 at a 14.2% annual rate – the first gain in two years -- companies can use profitability to raise funds. They are also issuing their own bonds, with corporate issues up over 50% versus last year and over 250% since the collapse of Lehman Brothers last September.

While they see these trends as positive, they believe that consumer spending will lead us out of the recession because they believe that the recession was not caused by tight money, but instead a significant slowdown in the velocity of money in the economy – i.e. consumer spending is a major driver of monetary velocity. With consumer spending up in the first quarter of this year, they see reasons to believe that the economy is poised to rebound quickly and strongly. They also point to one of the indices that we focus on in our reports, the ISM index for new orders, which was over 50 in May, and indication that on the new order side, manufacturing is expanding. Oftentimes with economists, it is “on the one hand, and on the other.” One is reminded of the day President Truman demanded, in frustration with the economic condition of the economy and the conflicting reports from economists, that his staff find him a “one-handed economist”.....

According to many observers and analysts, the US steel market has hit bottom and is starting to recover. Prices of HR have slipped to \$380-420 per ton according to press reports but at least two mills, AK and USS, announced price increases recently. However, it is not clear whether the increases will be accepted in the marketplace. At these prices levels, analysts have pointed out that every ton shipped by a domestic mill loses money, but with lower prices for scrap, the electric furnace mills fare better than the integrated.

According to press reports wire rod has been gaining strength recently due to low inventories and the decline in import arrivals. The pipe and tube market, especially OCTG -- the last product to collapse in late 2008 -- is reported to be bottoming out with the rig count below 1,000, down from 2,053 a year ago. Reductions in inventory throughout the supply chain are reportedly having the desired impact in the OCTG, HR and other markets, and with improved orders, prices are firming.

While these slightly positive signs are welcome, it is important to remember that domestic industry raw steel production is mired at just over 1,100 tons per week, compared to over 2,000- 2,100+ per week during most of the first three quarters of 2008. With so much of the industry idled, it is hard to see that the firming prices of late mean much for the longer term. When the mills begin re-starting their furnaces, additional supply could easily soften the market again unless there is a real increase in demand. One can only hope that when the economy improves and the stimulus spending does kick in, demand will support not only increased domestic shipments at higher prices but improved import arrivals too.

The world steel market is also not healthy at this point, with world production down 24% in the first four months of 2009 compared to the same 2008 period. Chinese production declined 3.9%, Germany's 53.1%; France 50.5%; Spain 38.2%; Japan 43.6% and the US 53.4%.

AIIS Customs Webinar

July 9, 2009

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MORE CHINA TRADE

Many in the domestic steel industry have asserted that the Chinese steel industry, market, exports, etc. are government controlled and not market based. To those who watch the machinations of the Chinese steel industry, with prices, imports and exports fluctuating sometimes with what appears to be mad abandon, it looks a lot like an open market-driven sector.

Recently, an interesting article appeared in the SBB about imports of auto steels into China. "Japanese auto sheet producers are moving to steal market share in China from under the noses of slow-moving domestic producers." Apparently, the Japanese steel producers are able to deliver high quality auto steels to the growing Chinese auto producing sector with much shorter lead times than the domestic Chinese steel producers in many cases. Japanese auto steel exports to China have grown this year to 80,000 tonnes in April after dropping substantially at the bottom of the market earlier this year. At the height of the market in 2008, Japanese producers were shipping 70,000 tonnes per month.

BUY AMERICAN

If one looks at the history of AIIS – back to the early 1950s when we were the American Institute for Imported Steel – one of the first trade issues our founding members faced was Buy American. AIIS support for open markets and free trade – whether with private companies or governments -- has always been a hallmark of our organization and so our founders fought against the expansion of Buy American restrictions.

As the GATT, now the WTO, moved to eliminate buy national preferences around the world, AIIS supported the effort enthusiastically. During the Uruguay Round, nearly all US Federal Government procurement was included in the Government Procurement Agreement, (GPA), with the exception of the highway and bridge program and some Defense Department procurement. In return, American manufacturers obtained access to billions of dollars of government procurement in the EU, Canada, Japan, Australia and other countries.

AIIS has continued to support the expansion of the GPA but until recently, the Doha Round did not have the GPA on its agenda. Now, with the worldwide recession and the proliferation of new buy national restrictions, the Geneva-based WTO is again looking at opening negotiations on the GPA to forestall devastating protectionist actions that could make the recession worse. AIIS enthusiastically supports the opening of the GPA negotiations.

The US included Buy American restrictions in the Stimulus Bill passed into law earlier this year. Thanks to a last minute effort on the part of the new Obama Administration, the Senate modified the House-passed bill to insure that the Buy American Rules did not violate any of our trade agreements – the House version would

have done just that, violated them all. AIIS noted at the time that this president's recommendation was a significant improvement over the House passed bill and applauded his proposal.

Now, at mid-year, we are beginning to learn that the modification to assure that our trade agreements were not violated may not have been enough and we hear about distortions in the marketplace affecting, of all countries, Canada. Canada believes, correctly, that is it being discriminated against by the Buy American provision and is discussing the matter with the US Government. Retaliation is possible and in the short term, some Canadian provinces and local governments are instituting protectionist procurement practices in response. We have seen over the decades that protectionism very often breeds more protectionism.....

Of note is that an American re-rolling mill and a division of a member of AIIS, Dueferco Ferrell (Dueferco Steel is the AIIS member), is caught up in the dispute. They have been told that they cannot supply flat rolled material to Wheatland Tube for a stimulus bill project because the flat rolled is made from imported slabs. Lawyers have been hired to adjudicate the issue as it is not clear what the language of the Buy American law and the regulations really mean at this point. 600 American jobs are at stake and Duferco may have to shut down its operations due to lack of business if it does not get the business from Wheatland. CSI president, Vincente Wright has also noted that his company is in the same position on the West Coast.

To make bad policy absurd, some believe that imported pipe from, say Canada, would be allowed on the stimulus project. The Stimulus legislation is supposed to create jobs and improve our economy. It is clear though that protectionism does not create jobs, it has always been a job killer. This discussion/dispute is complicated and it is not clear at this time how it will play out. Stay tuned.

STEEL MARKET DATA

	2009 4 months	2008 4 months	Percentage Change
Domestic Shipments	17,077	36,871	-53.7%
Total Imports	6,727	10,700	-37.1%
Semifinished Imports	497	2,227	-77.7%
Finished Imports	6,230	8,473	-26.5%
U.S. Exports	2,603	4,104	-36.6%
Apparent Steel Supply*	20,704	41,240	-49.8%
Net Imports	4,124	6,596	-37.5%

(000s of net tons)

Source: AISI statistics

*Apparent Steel Supply = Domestic Shipments + Finished Imports - Exports

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AIIS IN THE NEWS

- ▶ **Article | Associated Press:**
Steel product makers file China trade cases
6.8.09
Article quoting AIIS President David Phelps.
- ▶ **Article | Pittsburgh Tribune-Review:**
AK Steel, Allegheny Technologies Inc. faces dumping charges
6.3.09
Article quoting AIIS President David Phelps.
- ▶ **Article | Wall Street Journal:**
China Probes Imports of US Steel
6.2.09
Article quoting AIIS President David Phelps.
- ▶ **Article | The Journal of Commerce:**
Dumping Probe to Continue
5.28.09
Article quoting AIIS President David Phelps.
- ▶ **Article | American Metal Market:**
US firms cheer 6-0 ITC vote vs. Chinese OTCG
5.22.09
Article quoting AIIS President David Phelps.
- ▶ **Article | Steel Business Briefing:**
US export decline not so bad, considering other trends
5.19.09
Article quoting AIIS President David Phelps.
- ▶ **Article | American Metal Market:**
US exports jump 16.4% in March: AIIS
5.18.09
Article quoting AIIS Press Release.

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AIIS CALENDAR

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September 23 - 24, 2009 | HOUSTON, TX
The Houstonian | 111 North Post Oak Lane
- ▶ **AIIS Annual Dinner and Conference**
November 9, 2009 | NEW YORK, NY
Hilton New York | 1335 Ave. of the Americas

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