



FROM THE PRESIDENT

DAVE PHELPS :

In late April, the Port of New Orleans and AIIS held the first Critical Commodities Conference, covering steel, steelmaking raw materials, as well as energy, agribusiness, wood and transportation, logistics issues and infrastructure spending. Attendance at the conference was excellent – especially given the economy – at over 250. Many regular AIIS members as well as associate members were in attendance.

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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

This time last year, we regularly reported on the recession that everyone predicted, but seemed would never arrive. In fact the domestic steel industry, US exports of steel and other products had a banner year, that is, until the bottom fell out of the economy late in the third quarter. This year – what a difference a year makes – it is the recession that seems to have staying power. Each time the economy, or for that matter, the steel market hits a new low, the question immediately arises, “have we hit bottom yet?” [Reminds one of the children in the back seat of the station wagon on a long trip, asking “are we there yet?”]

The stock market – almost always an accurate predictor of economic events to come -- has rebounded from its March lows, by 25-30%. The question with market analysts is whether the “bull market” is a real bull market or a bull market run inside a bear market. Again, the question arises, are we at the bottom yet, or have we been at the bottom yet?

General macroeconomic data continue to reflect the poor condition of the overall economy. Unemployment hit 8.5% in March and April data registered another increase to 8.9%. GDP for the first quarter came in at a negative 6.1% and the final revision of the fourth quarter data was negative 6.3% growth. Experts are predicting that for the full year, US GDP will decline by 2.8%, which of course means that there are some who believe that the economy will gain strength as the year progresses. Clearly, with little good news through the first four months, mathematically, things will have to improve to get to only a 2.8% decline.

Finding good economic news, other than in the stock market, is not easy and some experts have twisted even poor economic data to argue that they hide good news. For example, the Institute for Supply Management’s index of manufacturing activity increased to a rating of 40.1 in April. While this result still suggests that the manufacturing sector is still contracting – anything lower than 50 reflects a contracting manufacturing sector – it is contracting at a slower pace than in previous months when the index was mired in the 30s. Some are describing this as good news! Again, have we seen the bottom yet?

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MARKET UPDATE (CONT)

With inventories in the steel sector, and throughout the manufacturing sector, at low levels, it will only take a small improvement in demand to result in improved new orders. That is why some are taking some solace in the ISM's new orders index, which came in at just over 47 in April, up from 41 in March.

Senior economists at a leading bank hypothesized that the Fed's easy monetary policy will lead us out of the recession. They point to ample evidence that it is monetary policy that drives the economy, not jobs. They explain that if jobs and employment drove the economy, when jobs were expanding, the economy would never stop expanding, if jobs were contracting, the opposite would happen. They believe that with the federal funds rate at nearly 0% and the Fed pumping liquidity into the banking system, these factors will lead us out of the recession. They believe that it will take six months for the full impact of these policies to take hold. Their analysis is persuasive, and we hope correct.

The steel market continues in the doldrums. At each price point, the question arises as to whether the market has reached the bottom. With hot rolled prices approaching \$400 per ton and some reports of some orders at just below \$400, it has been a steep fall from last summer's \$1,000 per ton price. Domestic mills continue to operate at less than half of capacity, producing around 1,000 tons of hot metal each week compared to 2100+ per week during most of the first three quarters of 2008.

Imports continue to decline month on month as arrivals in February and March reflect order-taking in late 2008 when the market was moribund. The most recent data suggest that imports will remain at low levels for at least several more months.

Exports of steel have shown some resiliency. If one subtracts NAFTA exports from the total, exports to non-NAFTA countries are down only 21%. Clearly, AIIS trading company members have been successful selling American made steel mill products to steel consumers around the world, benefiting both their companies, the domestic steel mills, foreign consumers of steel and many of our associate members in the maritime industry who move and facilitate exports from the US.

With the beginning of the construction season, one piece of the steel market is beginning to show some improvement, rebars, with import volumes improving in March.

OCTG

The domestic industry, led by the largest OCTG producer, USS, filed anti-dumping and countervailing duty cases against Chinese imports of OCTG in early April. This case was long rumored to be ready to file, as the OCTG market collapsed late in 2008 along with the decline in energy prices and the number of drilling rigs. AIIS immediately put out a press release when the case was filed, explaining that the large increase in OCTG from China was market-driven. In late June of 2008, USS announced an \$800 per ton increase in prices of all its pipe and tube products in the face of shortages, especially of OCTG. Again in September, USS announced another \$200 per ton increase. As a result of these price increases, import business that had not been viable – due to high freight rates and the weak dollar – became profitable. Drilling companies had been complaining about shortages of OCTG products, but that ended when the imports began arriving. The OCTG market collapsed in November – one of the last markets to decline – and of course, due to the time lag between import order and arrival, especially from China, the OCTG continued to arrive in a market that became quickly over-supplied. While the domestic industry blames the increase on unfair trade, it is clear that Chinese and other suppliers to the US market were merely reacting to market conditions. We hope the ITC understands that not all increases in imports are unfair trade and terminates the cases.

AIIS GULF REGION CONFERENCE

September 23 -24 2009

The Houstonian
Houston, TX

FROM THE PRESIDENT (CONT)

The steel and steelmaking raw materials panel was excellent, unfortunately without much good news for the short to medium term to report. There remains some cautious optimism that by the end of 2009 the steel market and the economy will respond to the infrastructure spending, tax incentives and low interest rate environment we currently have.

For those of us who live in the steel world, much of the conference was an eye opener, with problems similar to steel reported by some of the industries who participated. For example, the wood importers industry was present, the International Wood Products Association, and they reported on threats of trade cases, special investigations by the ITC and of course, a myriad of customs related challenges, like 10+2 – sounds pretty familiar.... Every industry except one, food and agribusiness, reported weak demand, struggles with operations and planning in this uncertain environment, etc. I suppose even in a bad economy, food still sells.....

The most interesting part of the conference, again for those who live solely in the steel world, was the reaction of many of our associate members and other maritime companies in attendance to the varied industry panels. Our associate members in the maritime industry do business with a variety of industries and clearly the Critical Commodities Conference hit a home run in covering, in one place and at one time, many of the industries that they work in and for.

Those of us who were involved in the planning of the conference, especially conference Chairman, Eric Hansen of Cooper T. Smith and our partners at the Port of New Orleans, knew this was going to be a unique conference, but even we were surprised at the quality of the speakers, the positive reaction of the attendees to the information and the networking opportunities with customers from all these industries.

Needless to say, the final speaker, James Carville, regaled all of us with his Cajun political insight and wit. His Democrat Party leanings were on full display, but his sometimes biting sarcasm that shows itself in television interviews was primarily replaced with humor.

Those shots he did take at Republicans were done with a typically warm New Orleans smile. A strong supporter of the City of New Orleans, he began his speech with heart-felt praise for his home and ended with an invitation to stay for Jazz Fest, spend money and come back.

Thanks again for all that supported the conference by attending, sponsoring or exhibiting. We look forward to building on the success of CCC 2009. Join us at the CCC in 2010 in the Crescent City, whose hospitality was and is, as always, second to none.

Our Mid-Year Review and Golf Tournament at Wildcat in Houston was held on May 12. We had a good turn out on a warm and windy day on Wildcat Golf Course. Defending their title, the winners again this year were the team of Mike Evans, Glenn Peel, Greg Eidman and Michael Wilson. Following the Texas barbecue dinner at Wildcat, members and guests asked questions about threatened trade cases and other trade developments in the new Obama Administration, which, as noted, are so far fairly positive on the trade front. The new administration has expressed its interest in having the FTAs pending from the Bush administration acted on by Congress and also, without specifying a time line, support also for the Doha Round. With regard to FTAs, it appears that while there is some interest in further discussions on labor and environmental issues, the Obama Administration is continuing the positive approach of the Bush Administration.

In this difficult year of 2009, the Board and the staff would like to thank our members for their support of AIIS and its mission to promote free trade. As you will see in this newsletter, the threat of protectionism always increases during the bad times and our experience in this downturn is no different than from the past. We have seen a new pipe and tube case filed against Chinese OCTG and the rumor mill is rife with rumors of many more, not only more pipe and tube but also flat rolled and long products. As always, AIIS will be involved in opposing these attempts to close markets. If we learned anything as a country from the experience of Smoot-Hawley in the 1930s, it is that protectionism only makes recessions worse – in the 1930s, turning it into a world-wide depression.

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ZEROING - AGAIN

The World Trade Organization has, for the 20th time, ruled against the use of zeroing in anti-dumping cases. Zeroing is a technical issue that unfairly inflates anti-dumping margins. While not all the 20 cases were against the US for using this pernicious practice, this most recent case was brought against the US by Japan. The Bush Administration agreed to eliminate zeroing for new AD cases, but resisted eliminating it for administrative reviews, etc. due to heavy political pressure from Capitol Hill and of course, the domestic steel industry. Our trading partners are moving toward retaliation for the US's refusal to abide by the WTO rulings against the practice.

AIIS, along with our many allies in the US like the Consumer Industry Trade Action Coalition, have made the elimination of zeroing a top priority in the US and the express elimination of the practice in the Doha Round of negotiations, which are still stalled. The Obama Administration has not indicated at this point what its position on the issue will be, but most insiders believe that the US will appeal the most recent decision to the appellate body of the WTO, even though the changes of success are, well, zero.

CHINA, NET IMPORTER AGAIN

In April, China logged another decline in finished steel exports, down 16%, while imports increased by 28%, turning China into a net importer for the first time since October 2005. Analysts believe that China will remain a net importer at least for the near term due to weak demand in their normal export markets and stronger demand in China. With China often accused of having a government controlled steel industry and market, it is interesting to note the unabashedly market driven responses to changes in relative prices in China and other international markets and how steel consumers in China respond to opportunities to buy imported material when the price, quality and delivery made sense. With China a destination for 41,000 tons of American made steel so far in three months this year and steel arriving there from Russia, Japan, Korea and other countries, China's steel market has more of the appearance of being market-driven than government controlled.

An interesting note on China is that several steel major US and international steel CEOs have recently postulated that, like in 2003-2004, China will again lead the international steel market out of a recession.

NEW AIIS MEMBER

SAGA FOREST CARRIERS INTERNATIONAL A/S

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Saga Forest Carriers is an international shipping company specializing in the transportation of forest products and breakbulk cargoes. Saga's box-shaped open-hatch bulk carriers represent one of the newest and most sophisticated fleet of forest product carriers in the world today. Each vessel is fitted with two specialized gantry cranes of 32-42 MT lifting capacity, which in turn provides for high-capacity loading and discharging.

In addition to forest products, these vessels are also ideally suited to carrying steel, project, clay, aluminum, break-bulk and high-quality bulk cargoes such as pet-coke, borates, soda ash, grain and woodpellets.

"These articles were provided to AIIS News in response to our request to introduce themselves as new members of our Institute. The article was written by the company and AIIS is not responsible for its content."

PRESS REPORT

DANIEL ELDER, DIRECTOR, PR

The goal of the AIIS PR effort is to raise the visibility of AIIS and its mission, the promotion of free trade. In furtherance of our PR program we have recently started a new monthly press release concerning exports of American made steel. Our regular members who export American made steel support not only jobs in the American steel industry and their companies, but also jobs of our associate members in the maritime industry who move the exports into international markets.

AIIS has always had good relationships with the metals press and we have tried to expand the interest in our issues and Institute to the mainstream press media when opportunities presented themselves, such as during the Section 201 debate. We are now making a concerted effort to invigorate those relationships, with meetings with, for example, *the Financial Times*, *the Wall Street Journal*, *O Globo* and others.

We have also developed good relations with some local newspapers, including the Times-Picayune in New Orleans. We would like to establish relationships with papers in our members' towns and cities and so are asking members to relay to us any articles about steel and trade from their local newspapers and whenever possible, contact information for the business writer/editor with whom we could develop a relationship.

Help us to improve our PR effort, so critical to our mission, to promote free trade. Send information to elder@aiis.org. Thank you.

STEEL MARKET DATA

	2009 3 months	2008 3 months	Percentage Change
Domestic Shipments	13,034	27,468	-52.5%
Total Imports	5,497	7,721	-28.8%
Semifinished Imports	390	1,476	-73.6%
Finished Imports	5,107	6,245	-18.2%
U.S. Exports	1,985	3,026	-34.4%
Apparent Steel Supply*	16,156	30,687	-47.4%
Net Imports	3,512	4,692	-25.1%

(000s of net tons)

Source: AISI statistics

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

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This Central California international 35-foot deep-water port is located in Foreign Trade Zone #231, close to Interstates 5 and 80. The UP and BNSF railroads have equal access to the Port through their regional railroad, the Central California Traction Company. Both major railroads have their main lines within 8 miles of the Port and have direct access for unit-train type service.

The Port has more than 4,200 acres, 7 million s.f. of covered warehousing and open dock areas for staging and assembly.



The Port of Stockton's West Complex has:

- More than 2.5 miles of on-dock rail service on double-reinforced concrete pier
- Two 1.25-mile sections of on-dock rail with capacity to hold over 60 railcars, each measuring 100 feet in length
- More than 12,000 linear feet of rail makes this the largest single terminal on-dock rail facility on the West Coast
- A facility that contains a third additional 1.25-mile section of near-dock rail within 80 yards of the water
- 5.5 million s.f. covered storage located within 1/4 mile of the terminal's rail

PICTURES FROM CRITICAL COMMODITIES CONFERENCE



AIIS Chairman Wilfried von Bulow and President and CEO - Port of New Orleans Gary LaGrange



Keynote Speaker: James Carville



Infrastructure Panel



Barthco Exhibitors



Head Table at Lunch



Wolfman and the Band

AIIS IN THE NEWS

- ▶ **Article | American Metal Market:**
Potential for more trade complaints, DiMicco says
5.5.09
Article quoting AIIS President David Phelps.
- ▶ **Article | American Metal Market:**
Trade groups cheer ITC China vote
4.24.09
Article quoting AIIS President David Phelps.
- ▶ **Article | American Metal Market:**
US steel pipe exports fall 34.4% in 1st two months
4.23.09
Article quoting AIIS press release.
- ▶ **Article | The Journal of Commerce:**
American Steel Exports Plunge 34.4 Percent
4.23.09
Article quoting AIIS President David Phelps.
- ▶ **Article | American Metal Market:**
Steel groups press for trade deficit action
4.15.09
Article quoting AIIS President David Phelps.
- ▶ **Article | Associated Press:**
Pipe makers file case against China
4.12.09
Article quoting AIIS President David Phelps.

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AIIS CALENDAR

- ▶ **AIIS Gulf Region Conference**
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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