

SBB Steel Markets Europe 2006

Future for European Steel

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- Key questions
 - Will steel intensive manufacturing in the EU be “hollowed out”?
 - Will steel manufacturing be “hollowed out”?
 - What does the Mittal / Arcelor / Severstal situation mean for European Steel?

- Is the USA a suitable metaphor?
 - Steel imports : trade balance (26 MT) / 2004
 - Net Manufactured Imports : (\$470Bn) / 2004
 - But there are big differences between USA & EU
 - 1959
 - Seaboard demand and inland supply
 - Cost from Chicago to California
 - The long decline of US Steel Ind.
 - The human talent

Key manufacturing industry trends : EU

- Automotive prods imports growth rate : 7.75%
exports growth rate : 7.8%
- Manufactured prods imports growth rate : 6.5%
exports growth rate : 6.4%
- Trade balance in Machinery and Transport Equipment
China (€30.7bn) / 2004 [it was 4.22 in 1999]
- Trade balance in other manufactured goods
China (€47.28bn) / 2004
India (€2.28bn) / 2004
- There are individual sectors which are changing e.g. Forging

Where can steel be made cheaply?

Labour (US\$/hour)	Ukraine	2.00
	Russia	2.50
	India	3.25
	South Africa	11.75
	Brazil	14.00
	South Korea	16.50
	Australia	33.00
	USA	39.00

Coke (US\$/t)	India	88
	Ukraine	92
	Russia	97
	Australia	98
	South Africa	107
	Brazil	124
	USA	134
	South Korea	137

Natural gas (US\$/MMBtu)	Russia	0.80
	Ukraine	1.50
	South Africa	1.90
	Australia	2.19
	Brazil	2.85
	India	3.60
	USA	5.71
	South Korea	5.74

Electricity (US\$/kWh)	Russia	0.03
	South Africa	0.03
	Ukraine	0.03
	Australia	0.04
	USA	0.05
	Brazil	0.05
	South Korea	0.06
	India	0.09

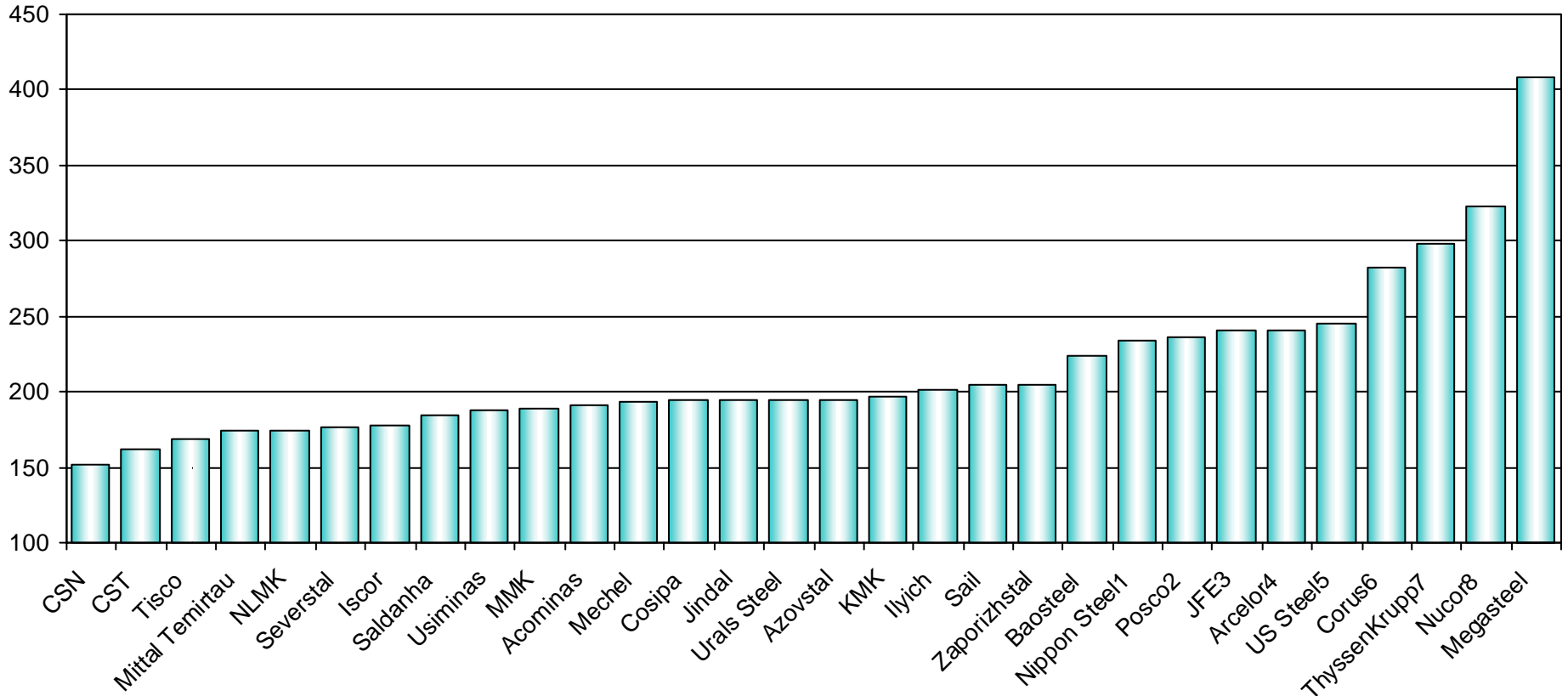
Scrap (US\$/t)	Russia	160
	Ukraine	160
	Brazil	200
	Australia	200
	South Africa	200
	USA	210
	South Korea	260
	India	270

Iron (US\$/t)	India	28
	Brazil	30
	South Africa	37
	Australia	40
	Ukraine	43
	Russia	45
	USA	50
	South Korea	52

Notes:
Data is for 2004
1 MMBtu = 1.055 GJ

Where is the EU on the slab cost curve?

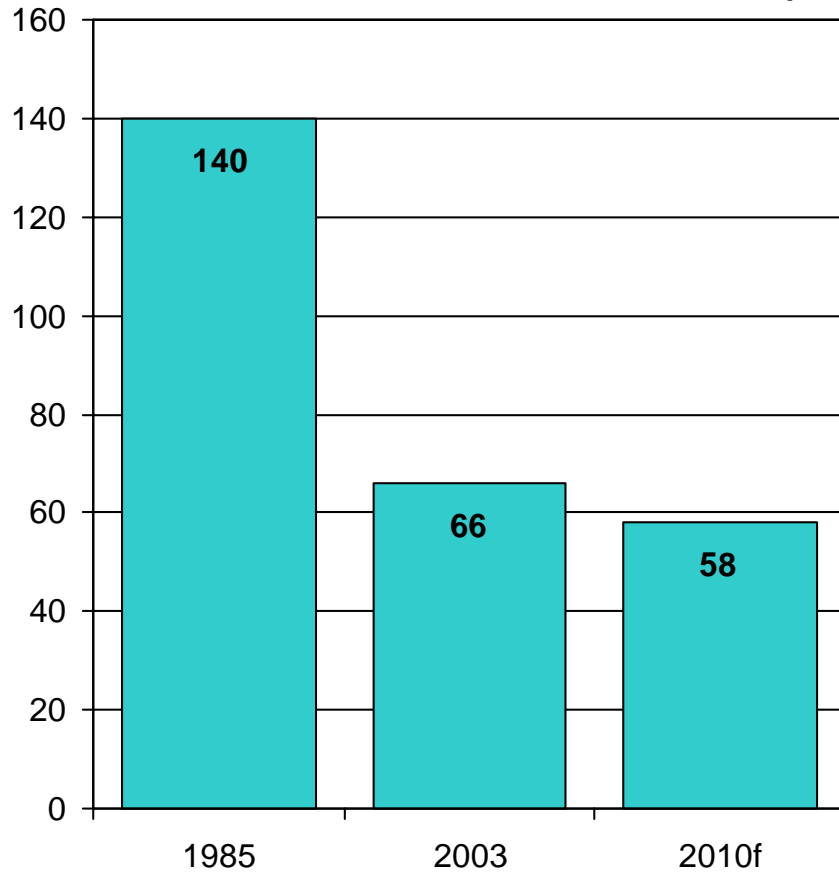
Slab production cost, 2004 (US\$/tonne)



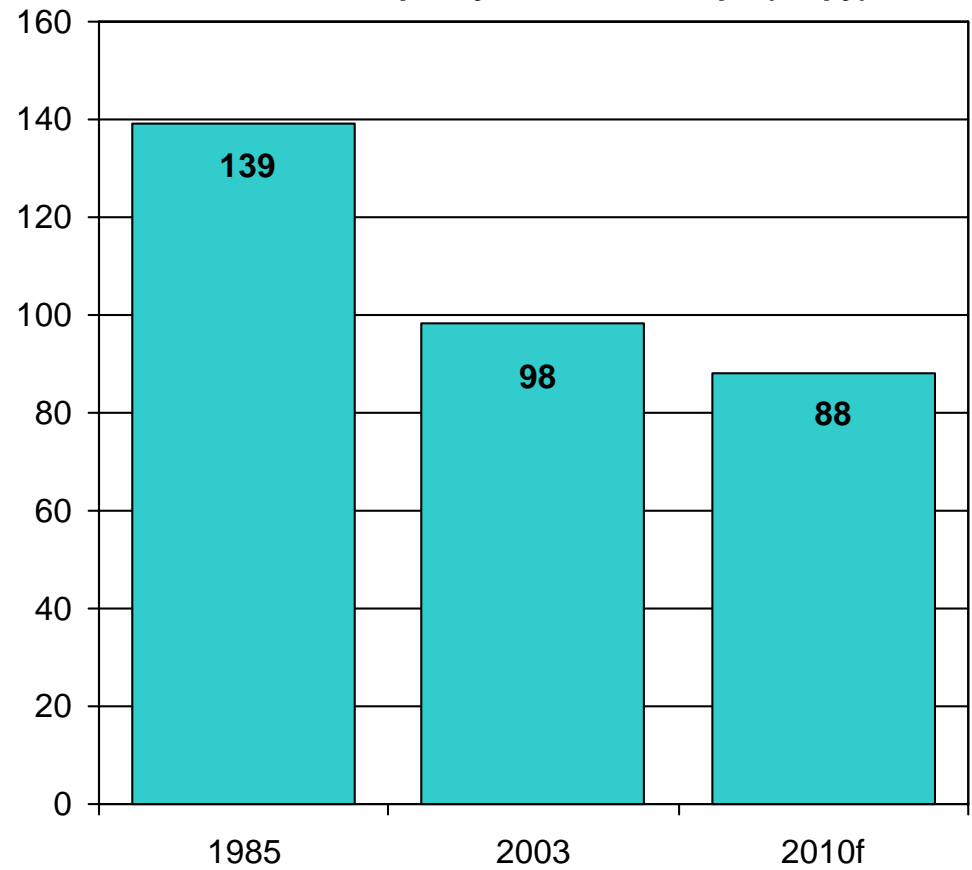
Notes: Costs excluding capital costs and overheads; ¹Kimitsu plant; ²Pohang plant; ³Mizushima plant; ⁴Dunkirk plant; ⁵Gary plant; ⁶Port Talbot plant; ⁷Bruckhausen plant; ⁸Berkeley plant

Will the EU keep any Blast Furnaces?

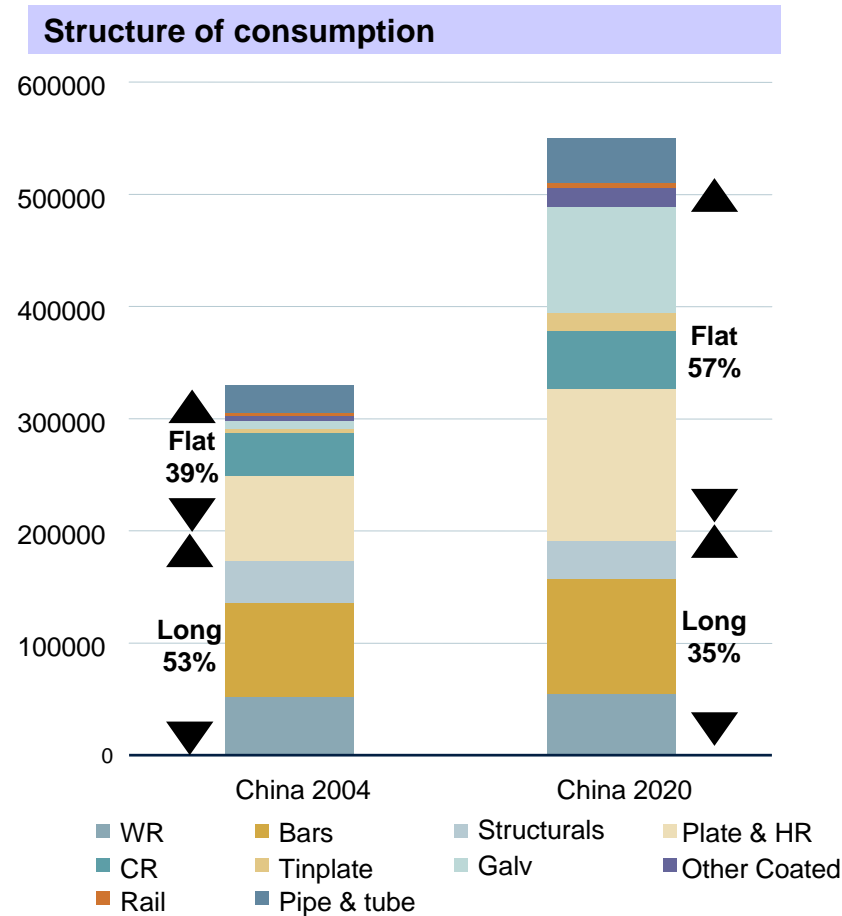
Number of Blast Furnaces in Western Europe



Total BF Capacity Western Europe (m tpy)



But quality is a key consideration when it comes to serving markets



The emerging focus in the Chinese industry is value added product development, distribution and consolidation to achieve a world best industry

What would Mittal plus Arcelor mean for EU competitors? Would Severstal plus Arcelor be different?

- Creates a 110MT pa Carbon Steel Giant
- Three times the size of the next largest
- At maximum limit of market share in EU flats, EU sections, EU wire rods, NA flats
- Mittal is currently 50% self sufficient in Iron Ore, 20% in Coking Coal
- The group is aiming for self sufficiency
 - Expansion of Iron Ore in Ukraine, Kazakhstan
 - Iron Ore developments in W. Africa
 - CC developments in Kazakhstan, British Columbia
- The Mittal business model will put intense pressure on all EU BOF producers. Mittal will eventually have high quality assets with cost structures \$60-80 pt lower than Corus, Riva, TKS etc
- Responses will have to be:
 - Acquire RM assets
 - Force down prices
 - Agree indexing
- Likewise the current \$30 lower cost of BOF Steel over EAF Steel will become entrenched and deepened
- This deal, if it proceeds, could be transformational for EU and world steel

So what is the future for
European steel?