

# The global seamless OCTG market outlook

James Ley – Senior Consultant

HATCH IRON & STEEL CONSULTING



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- **The global seamless OCTG market in 2009**
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- **Outlook for the market and potential opportunities for American exporters**



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- Hatch supplies business, process and technology consulting, design and engineering and construction, operations and project management to the mining and metals, energy and infrastructure industries worldwide
- Established 1955 and employee owned
- 8000 highly skilled people serving clients worldwide
- US\$16BN of projects now under management in 60 countries

## Our values

- Safety
- Quality
- Innovation
- Sustainable development
- Effective risk management

**We deliver unprecedented and sustained results for our clients**

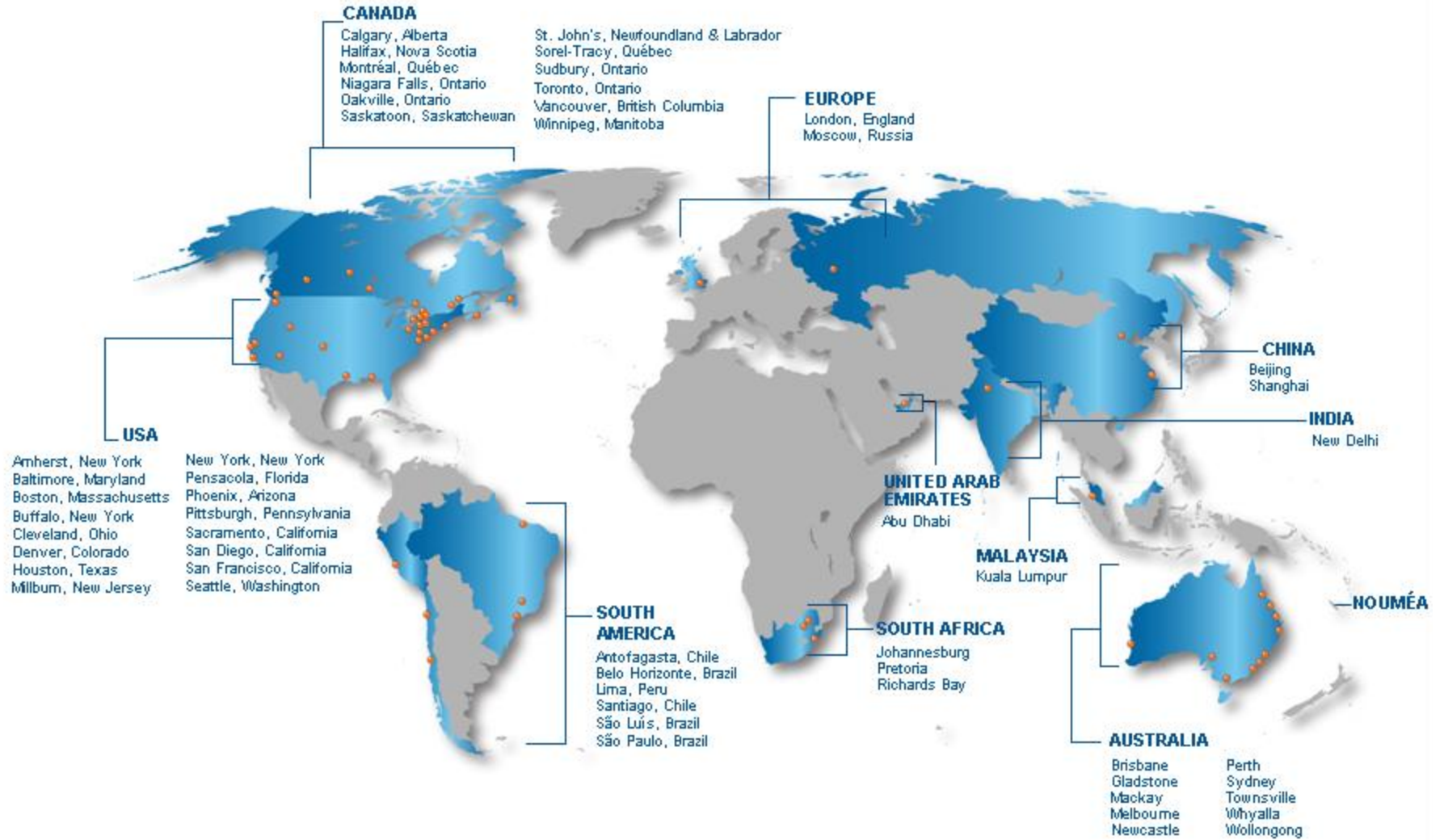
HATCH CONSULTING

## Hatch Consulting is the leading management consultancy dedicated to the mining and metals industries

- **Hatch Consulting** is the world's leading management consultancy specialising in the mining and metals industries and provides high level support services, ranging from corporate and business strategy development through strategic market studies to implementation of new technologies, management and operating practices
- Hatch Consulting is organised into specialised practices by industry and service, combining to provide precise solutions, expertly delivered to the exact needs of each individual client
- **Hatch Iron and Steel Consulting** is the strategy and market development practice, specialising in steel and raw materials, and providing strategy development and implementation services
- **Investment and Business Planning** (IBP) provides economic, environmental and technical evaluations of minerals properties and processing facilities, due diligence, pre-feasibility and feasibility studies and related investment planning and appraisal services
- **Hatch Corporate Finance** a FSA-regulated joint venture company, provides corporate financial advisory and transaction execution services

THE GLOBAL SEAMLESS OCTG MARKET  
**Global reach and resources**

8000 staff – February 2010



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## THE GLOBAL SEAMLESS OCTG MARKET

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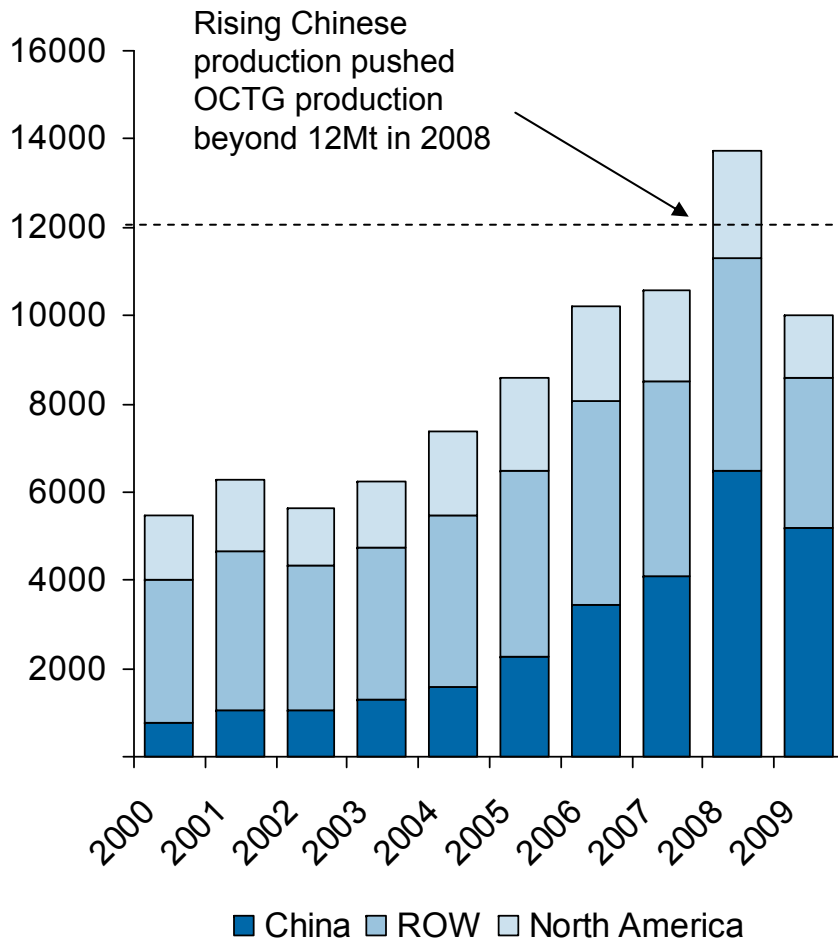
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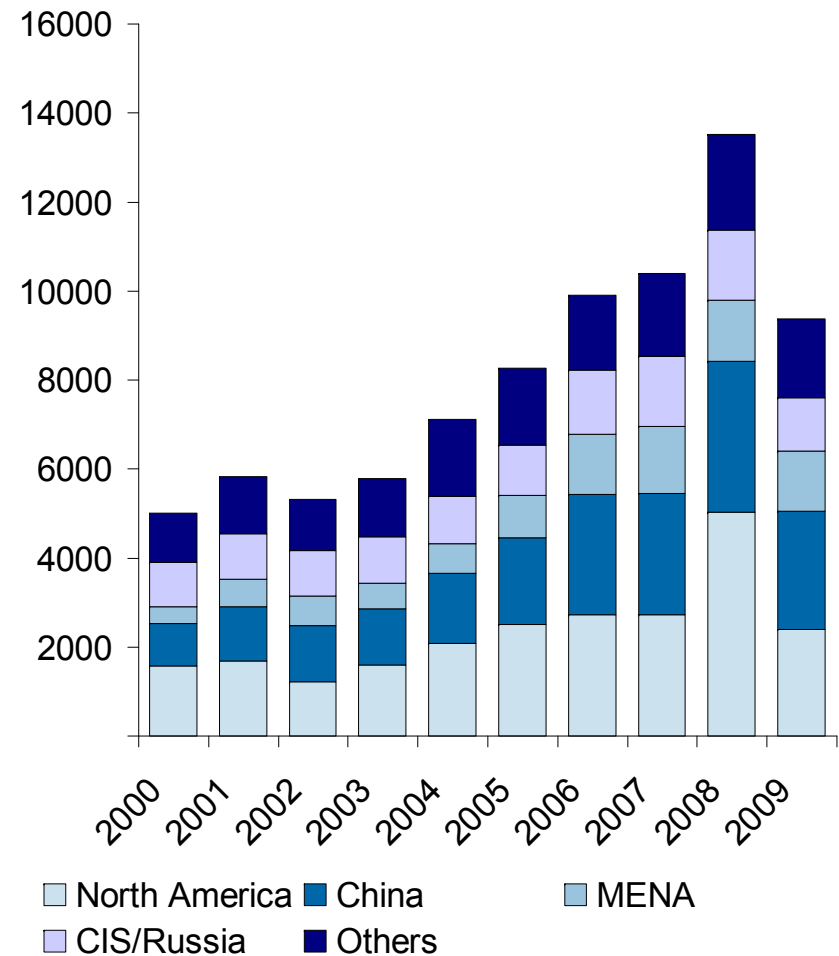
THE GLOBAL SEAMLESS OCTG MARKET

**Global seamless OCTG production spiked in 2008 but dropped in 2009 as demand fell**

Global seamless OCTG production (kt)



Global seamless OCTG consumption (kt)

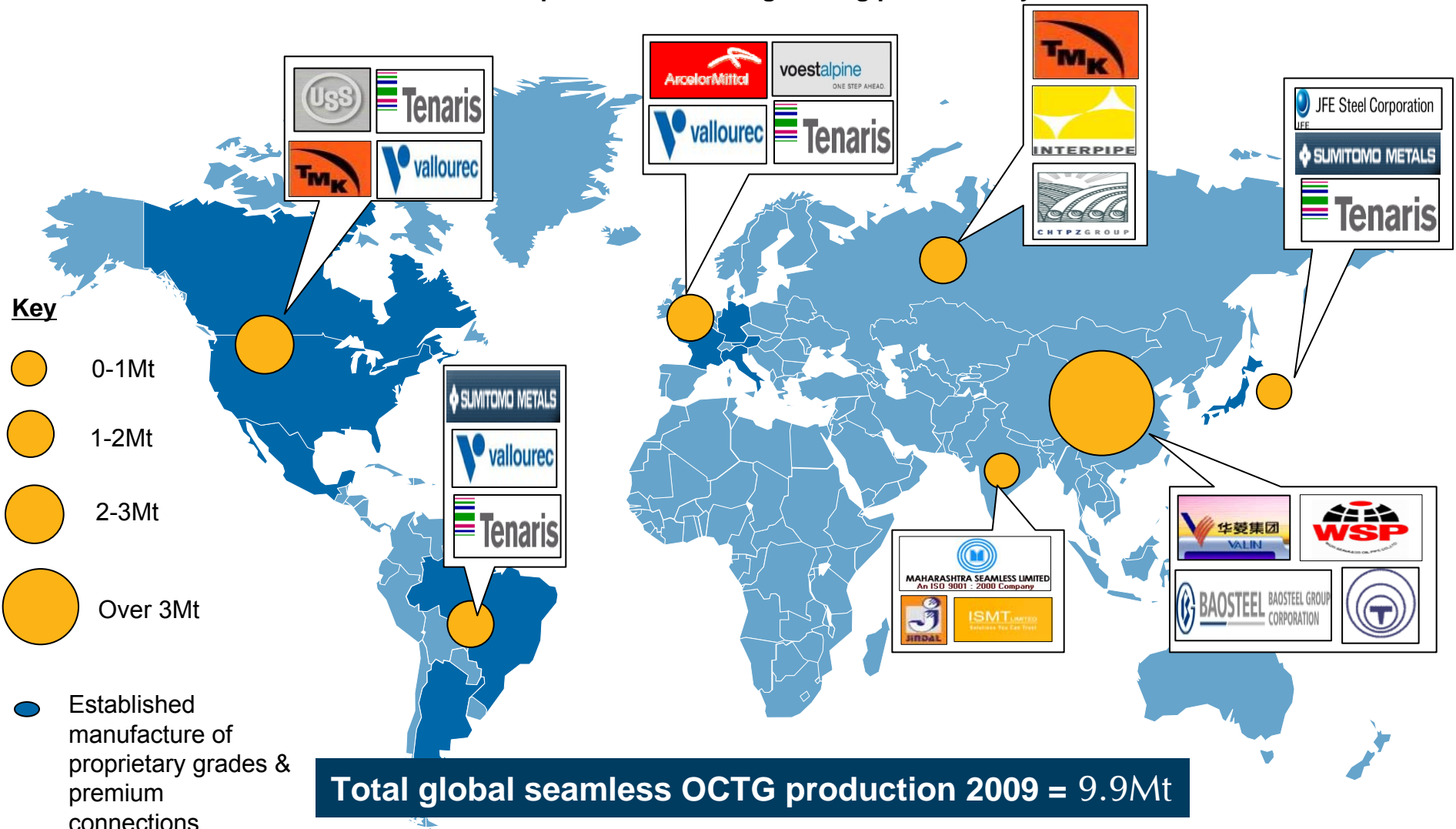


Source: various and Hatch estimates

THE GLOBAL SEAMLESS OCTG MARKET

China now dominates seamless OCTG production - The Americas, Europe and Japan are the leaders in proprietary & premium connection production

Global seamless OCTG production showing leading producers by continent

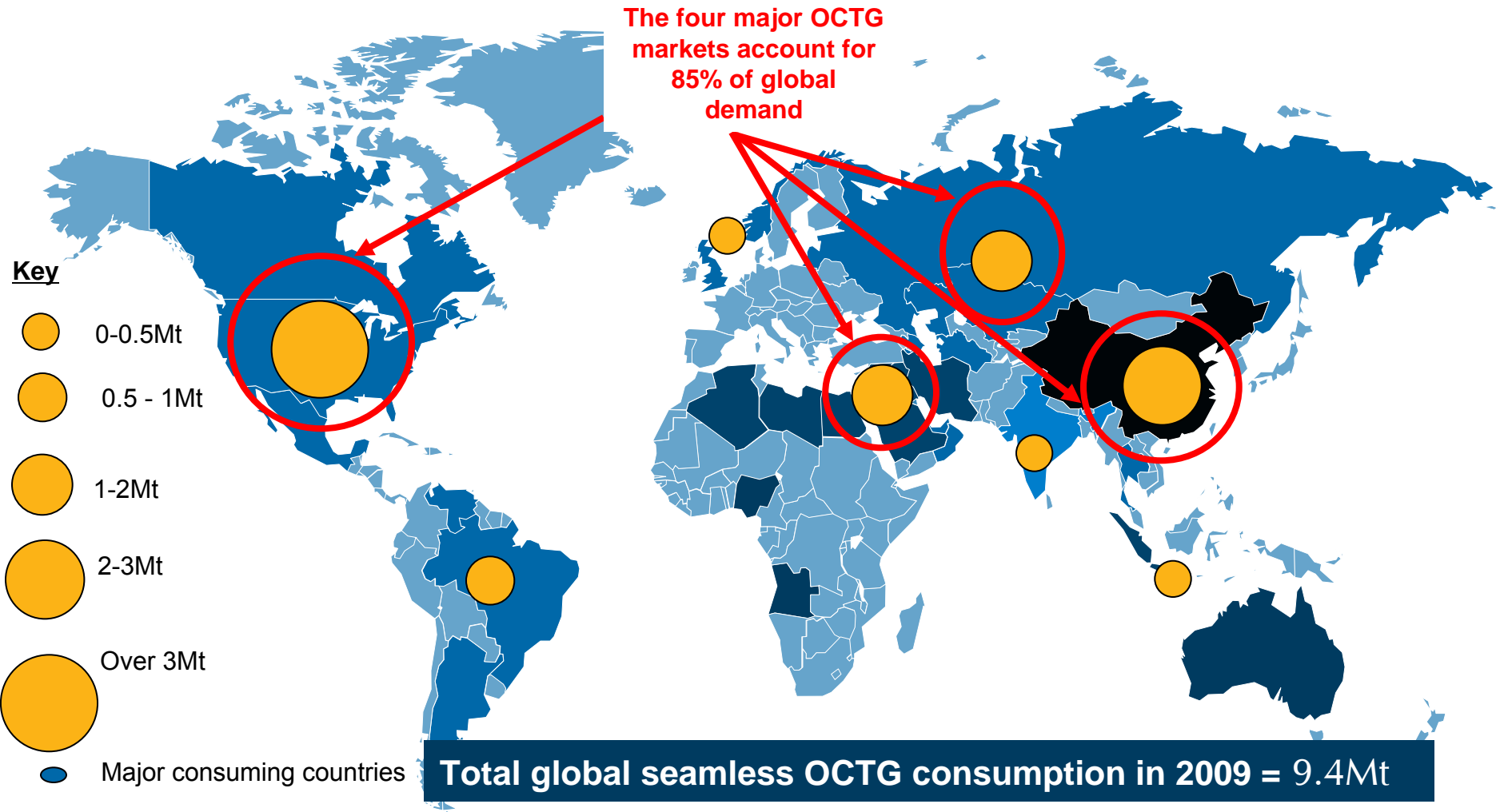


Source: Hatch

THE GLOBAL SEAMLESS OCTG MARKET

Despite the downturn, the USA remains the largest consumer of seamless OCTG in the world; China has emerged as the second major consuming market, followed by Russia and MENA

Global seamless OCTG consumption shown by region (Mt)



Source: Hatch

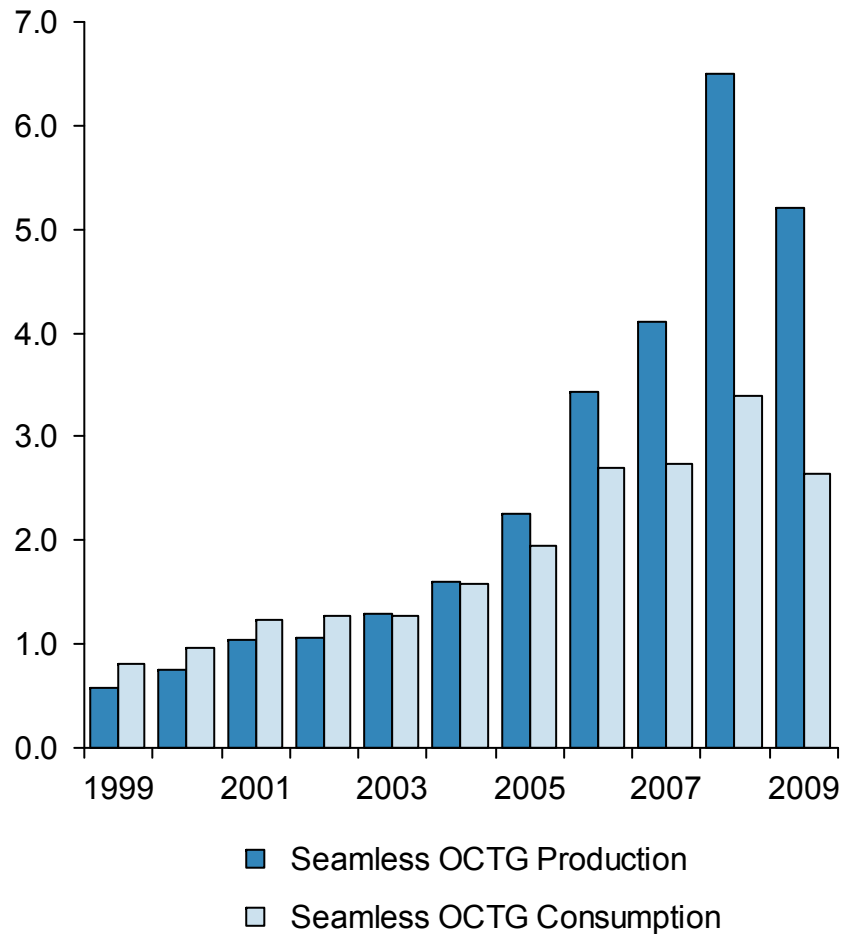
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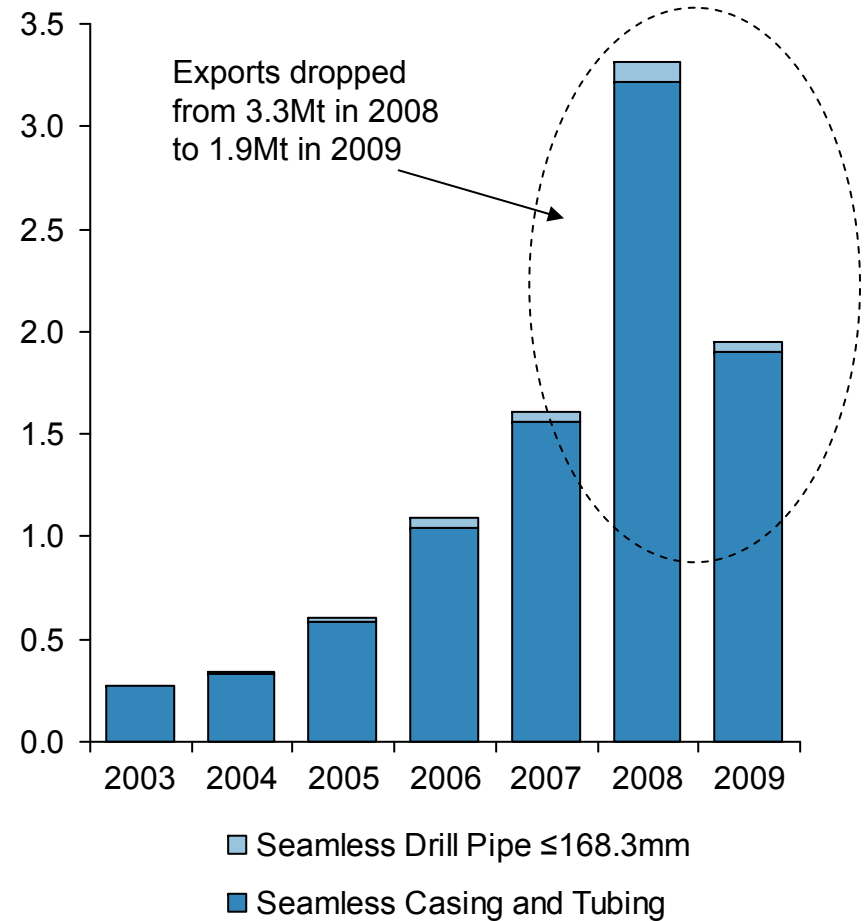
THE GLOBAL SEAMLESS OCTG MARKET

**By 2008 Chinese seamless OCTG production significantly exceeded demand.  
In 2009 following the trade case filed in the US OCTG exports from China  
dropped significantly**

Chinese seamless OCTG production and consumption



Chinese seamless OCTG exports (kt)

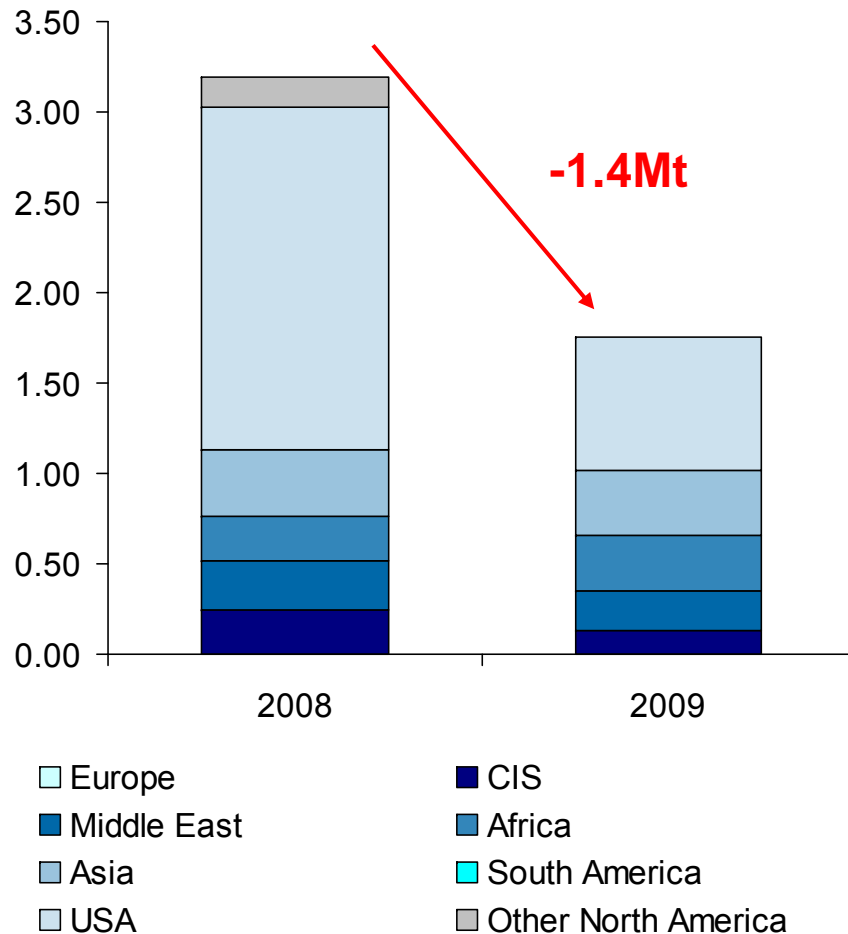


Source: Company interview, Chinese Steel Pipe and Tube Council and Hatch estimates

THE GLOBAL SEAMLESS OCTG MARKET

The drop of exports from China in 2009 coincided with the global slow down and the opportunity for China to export OCTG was significantly limited

Chinese seamless OCTG exports by region 2008 and 2009 (Mt)



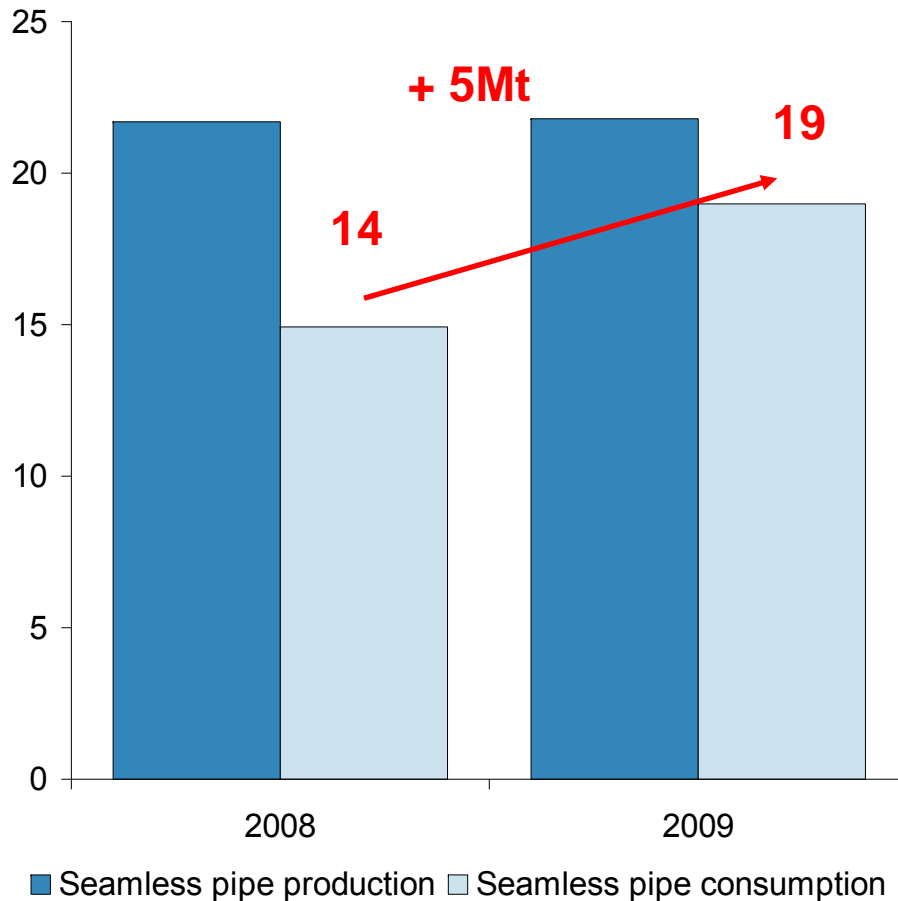
	2008	2009
<b>USA</b>	<b>1.89Mt</b>	<b>733kt</b>
<b>Other countries</b>	<b>1.43Mt</b>	<b>1.20Mt</b>
<b>Total</b>	<b>3.3Mt</b>	<b>1.9Mt</b>

- **Algeria** (up 86kt), **Iran** (up 25kt), and **Indonesia** (up 34kt) were the major countries to see an increase of Chinese OCTG imports in 2009 vs 2008
- Outside of North America and MENA, the worlds other major OCTG market, **Russia**, showed a significant decline in Chinese seamless OCTG imports in 2009 vs 2008 (down 80kt)
  - The Russian market is not driven by stockists but is controlled by end-users such as Gazprom
  - The market is also unattractive for Chinese exporters as import duties of 15% are in place for seamless OCTG

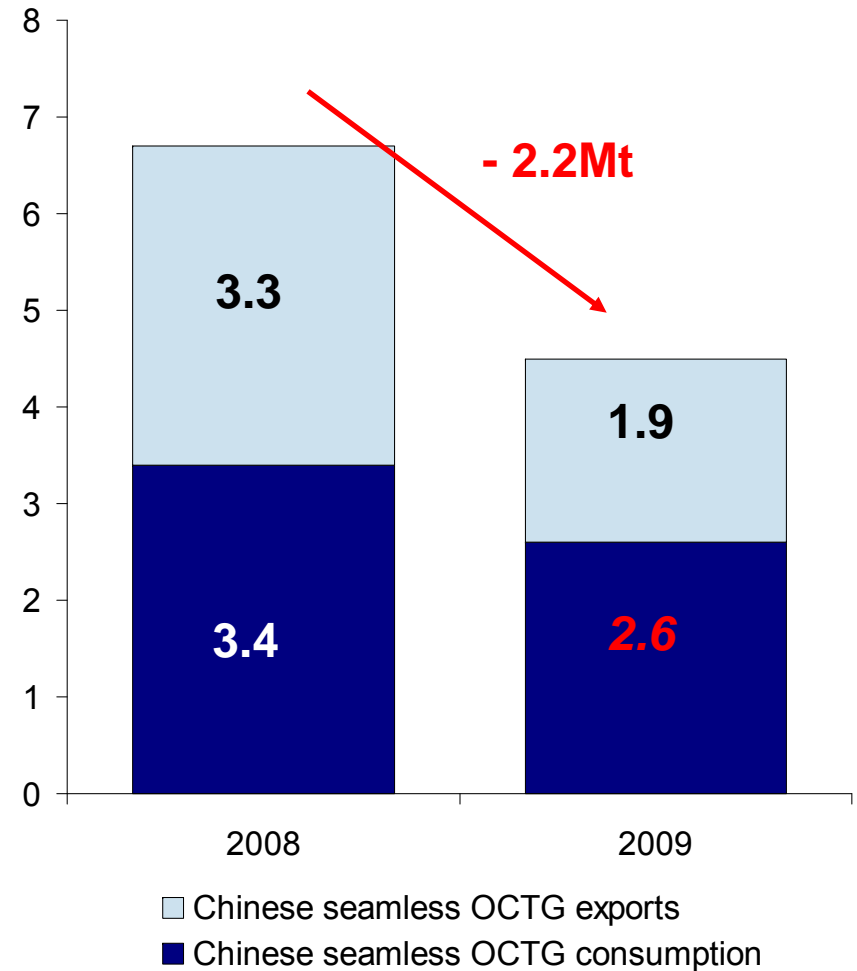
THE GLOBAL SEAMLESS OCTG MARKET

**Domestic seamless pipe consumption increased sharply in China in 2009, suggesting a shift in product mix by local mills from OCTG to Industrial pipe**

Chinese seamless pipe production and consumption in 2008 and 2009 (Mt)



Chinese seamless OCTG consumption and exports (Mt)



*Red italic = estimate*

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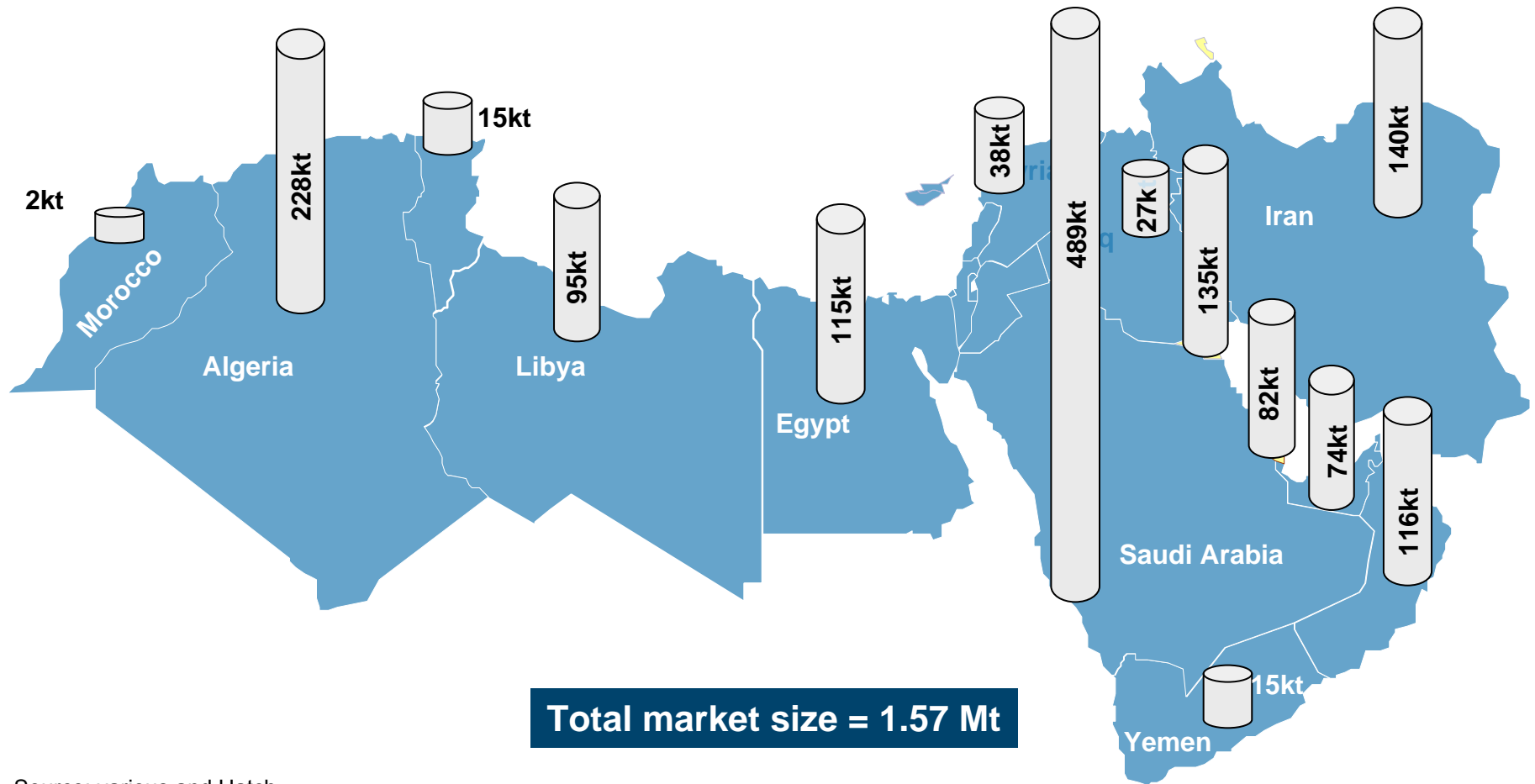
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THE GLOBAL SEAMLESS OCTG MARKET

Of the four major OCTG consuming markets, MENA is the one market where collective anti-dumping duties/import taxes are not in place on Chinese OCTG casing and tubing

Seamless OCTG consumption in MENA in 2008



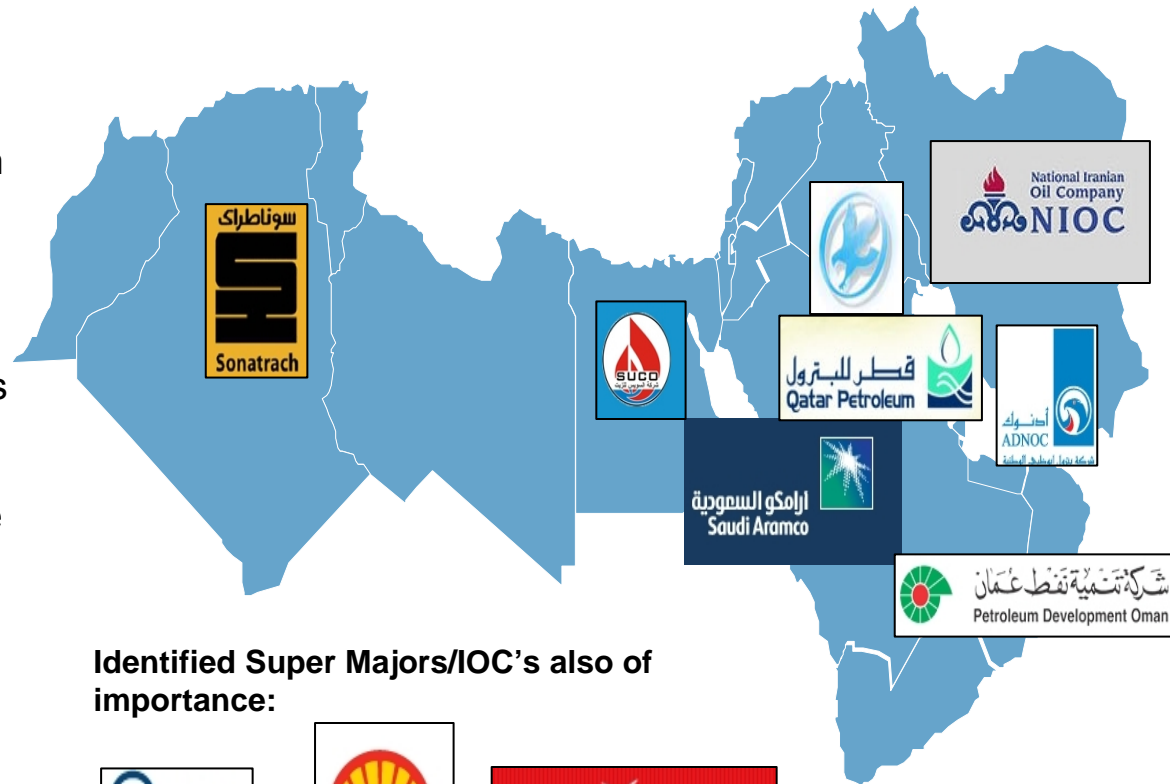
Source: various and Hatch

THE GLOBAL SEAMLESS OCTG MARKET

However, the MENA market is not controlled by stockists, but rather NOC's which make it difficult for China to quickly penetrate these markets

- End-use demand for OCTG in the MENA market is dominated by National Oil Companies (NOC's) such as Saudi Aramco, ADNOC, KOC and Sonatrach
- OCTG manufactures must go through an approval process in order to be able to supply to these NOC's
  - In certain cases this approval process can take several months
- For many of the MENA countries it will also be difficult for new mills to penetrate the proprietary/premium connection market that Tenaris, Sumitomo and Vallourec dominate
- **As a result, Chinese OCTG can not instantly flood the MENA markets**

Overview of leading end-users of seamless OCTG products in the MENA region

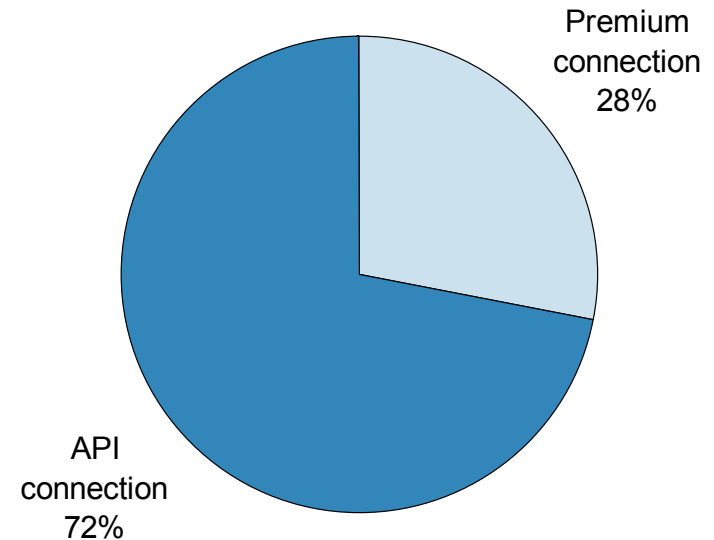


THE GLOBAL SEAMLESS OCTG MARKET

**The MENA market will also use premium connections on some simple API grades of OCTG restricting the access of non-premium connection imports**

- Seamless OCTG used in MENA requires just under 30% premium connections
- For many MENA countries, premium connections are used extensively on “simple” grades such as API group 2
- Proprietary grades account for 7% of the market demand in 2009
- North African countries like Algeria, more reliant on API group 1, have seen a rise in commodity imports from China in 2009
- The GCC countries and Iran which are more exposed to higher API grades than Algeria heavily rely on premium connections
  - ***It remains difficult for a number of Chinese mills to increase their presence here***

Use of premium connections in the MENA market in 2009



Source: Hatch

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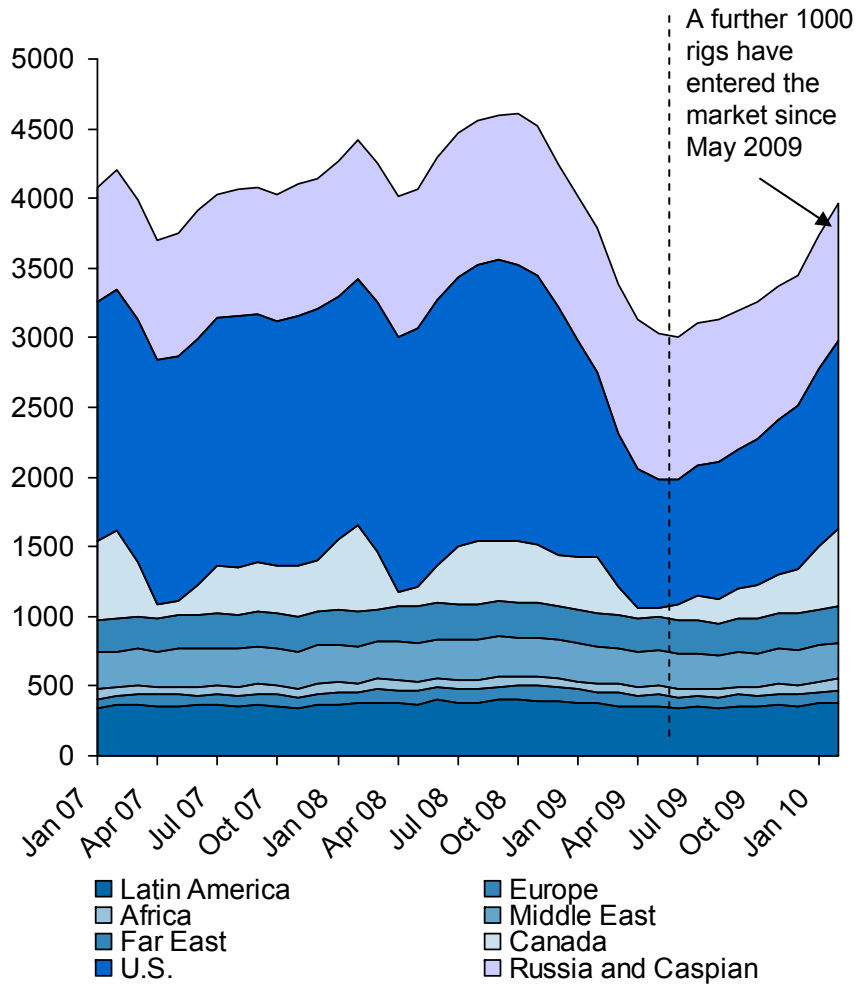
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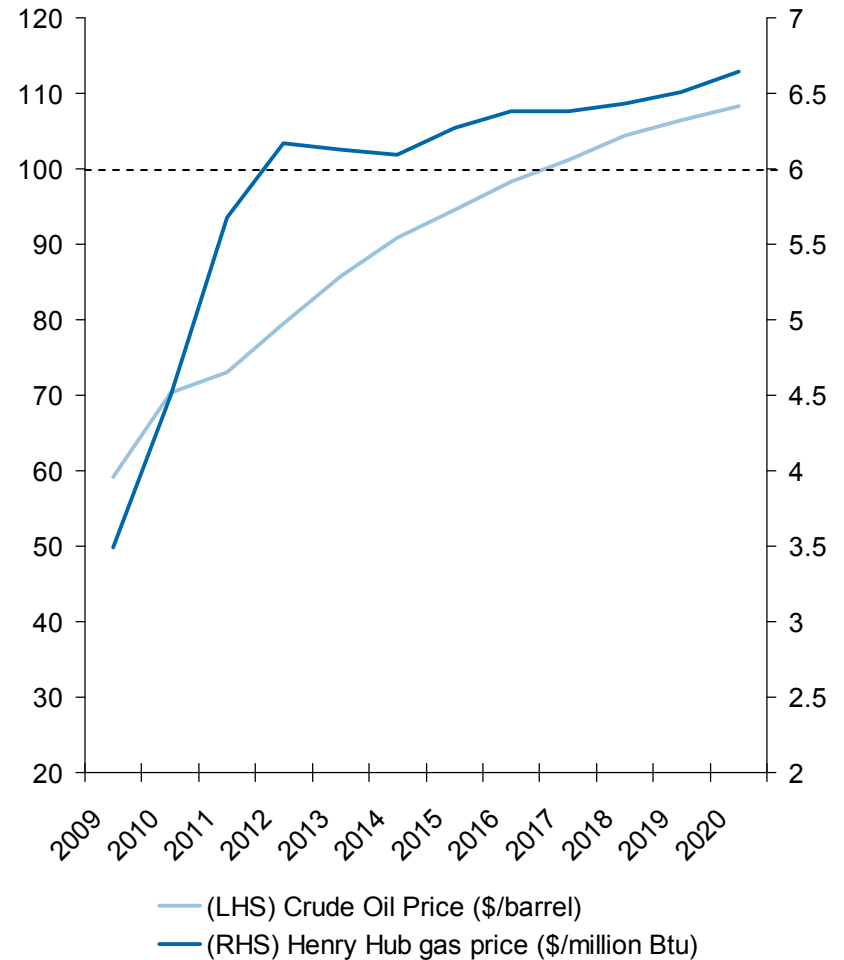
THE GLOBAL SEAMLESS OCTG MARKET

Rig count numbers have begun rising sharply since July 2009 and long-term oil prices suggest \$100/barrel will be breached again towards the end of the decade

Worldwide rig counts Jan 07 – Mar 2010



Forecast oil and gas prices to 2020

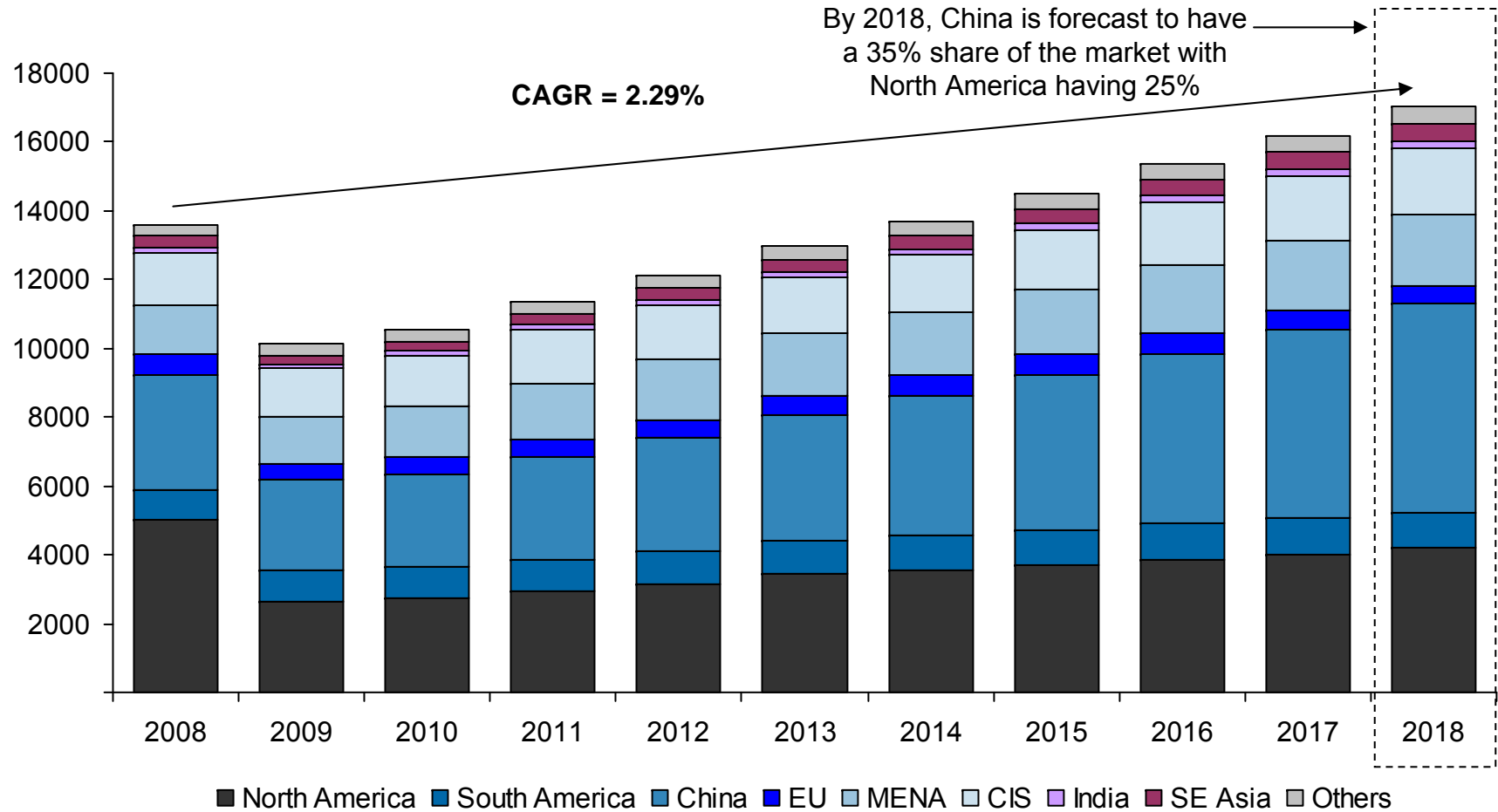


Source: Baker Hughes, Mi Swaco, EIA and Hatch

THE GLOBAL SEAMLESS OCTG MARKET

**This supports a forecast strengthening demand for seamless OCTG, with China expected to be the largest market by 2018 surpassing the USA**

Forecast global seamless OCTG demand (kt)



Source: Hatch offices worldwide

THE GLOBAL SEAMLESS OCTG MARKET

**Chinese mills are likely to increase their production mix's away from the OCTG market. With a weakening dollar, US mills could look to the export market**

- The MENA market can not absorb seamless OCTG from China that was initially targeted for the USA
  - It will take Chinese mills a number of years to build up any sizeable market share in many MENA countries
- With the US and Russia unavailable for Chinese seamless OCTG exports, Chinese s mills will have to continue to shift production from OCTG to markets such as the industrial sector
- US OCTG mills are likely to see a continued improving market in 2010/11 as domestic drilling demand rises on the back of the gas shale's and competition from imports is reduced
- Latin American markets such as Brazil, coupled with markets in Western Africa and MENA could offer long-term export potential for US OCTG producers, particularly as the dollar weakens against other currencies
  - Having premium connections and proprietary grades is likely to improve market penetration for American mills in a number of countries

**US dollar to Euro exchange rate**



Source: Oanda and Hatch

THE GLOBAL SEAMLESS OCTG MARKET

**Thank you for your attention. For further information on our pipe and tube consulting please contact:**



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