

Stable outlook

British steel stockholders are facing 2013 with confidence

In a changing supply scene, where an increasing amount of steel is imported into the UK, British steel stockholders and service centres are looking forward to a virtual repeat of 2012 in terms of business growth and turnover. »stahlmarkt European Edition« visited the National Association of Steel Stockholders (NASS) and met Director General, Peter Corfield.



Peter Corfield

■ **Stahlmarkt:** When we spoke last in summer 2011, you quite rightly predicted a low but sustained growth for the UK steel trade sector. In the recent NASS News Update there were some cautiously positive views about the UK economy. Recent government figures bear this out, but will this trend continue and will it be uniform across the sector?

■ Peter Corfield: In 2013, I think the automotive sector will continue to be quite strong. One of the advantages that the automotive sector in the UK has is that the vehicles produced are on a single model

production site basis. i.e. there is not another factory in Europe that is building the same model. These plants therefore rely on the demand for their specific product across Europe to absorb their output. The markets either want or don't want specific models. The models made in the UK seem to be popular, especially Jaguar and Land Rover, however all models being produced within the UK seem to have a positive response from the marketplace.

You only have to look at the number of vehicle registrations in the UK and how much is exported to mainland Europe and

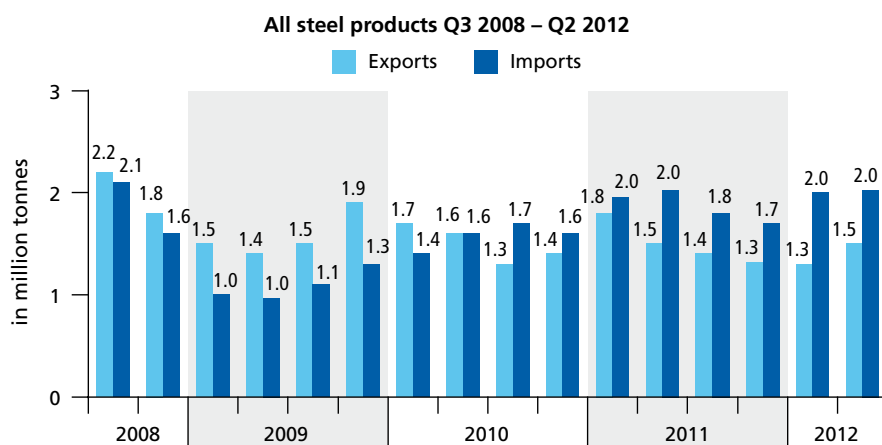
other parts of the world – I think that the automotive sector is now approaching historical highs in terms of production units within the UK. And that is in contrast to what's happening elsewhere in Europe. Some parts of Europe are reporting that their automotive sector is not strong, because they are experiencing reduced demand. It is also important to note that the UK has started from a lower point and continues to grow. So we've got the opposite sides of the spectrum here.

■ **But there will be some flexibility, as in the case of Honda, where the manufacturer is slowing down a facility. That's of course a drawback of the situation that if you are the maker of one specific model, you will also have to bear it if that model does not sell well.**

■ Yes, you will, if the model does not sell. Honda have always tried to align their production to supply and demand. They are usually quite good at forecasting.

The next major sector, construction, has had a lot of publicity and media attention in the year. It has stalled, there's no doubt about it – obviously the consequences of what's happened as a result of government cuts has impacted. Nonetheless there was still something in excess of 900,000 tonnes of steel consumed in construction in 2012. And there is no reason why that situation should change in 2013. In fact, the latest forecast is that it is likely to be even better.

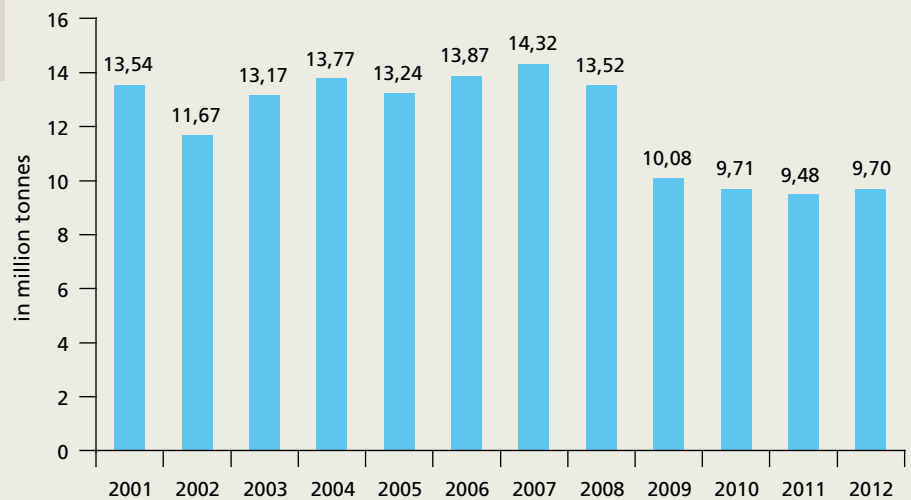
UK Quarterly Balance of Trade



(EE 130104861/1)

Source: ISSB

UK: crude steel production 2001 – 2012



(EE 130104861/2)

Source: worldsteel

■ **Is this influenced by the easier planning and execution of domestic house building?**

■ Domestic house building has an impact on steel, but it's not as great as industrial, commercial, retail, or in fact infrastructure development. Within domestic build, the main use of steel is on what we call »fit-out«, i.e. components for ceilings, partition walls or purlins, which are all derived from flat products. Steel construction is normally a large consumer of long products which are processed by steel fabricators. There have been some casualties amongst the fabricators and it is still an area which is considered with concern by the risk underwriters. Having said that, there are also one or two success stories in there, with fabricators who have continued to flourish. But the important thing within construction is that there is relatively stable activity. And surprisingly, in the last couple of months, there has been a revival of some projects and increased activity.

■ **Another important steel sector involves the manufacture of earthmoving equipment, the »yellow goods sector«, as it is generally referred to. Demand has been good for the first three quarters of 2012. In the final quarter there was probably a similar situation to Honda, i.e. there was an alignment of units produced to meet demand. The latest view of 2013 is that it will replicate 2012. So it is not a case of the last quarter of 2012**

■ **becoming the basis for expectations in 2013. These yellow goods, are they going to markets outside Europe?**

■ They're mainly going to the rest of the world markets. All major manufacturers are going to these markets and setting up appropriate facilities. JCB with their headquarters in the UK, are now operating plants in Brazil, China and India. And there are others that are pursuing similar activities, and they are supplying the goods.

■ **So whatever happens in the Eurozone will be relevant to them, but not decide their business?**

■ The majority of their activity is outside Europe and will increasingly be that way. There is no doubt about it. And obviously, with that in mind, hopefully they will maintain their plants in the UK for their European requirements.

The other sector worthy of note at the present time is utilities, incorporating energy, power and gas production. This is a key area for our plate distributors/profilers, who are telling us that projects which were frozen or on hold are suddenly coming to fruition. These projects do not use commodity plate, but utilise specialised plate that has an extended lead time, and this has created some pressure in terms of availability. So there's no doubt that in that area of specialised plate, the suppliers are having quite a reasonable time.

■ **Will this plate come mostly from abroad?**

■ The sourcing of these higher quality grade plates is likely to be from Europe as opposed to the rest of the world. Some of these requirements will obviously be met by UK supply.

In this context it is also worth noting that in the manufacturing supply chain the closer firms are to making things, the busier they appear to be. The majority of UK manufacturers have filled their capacities to acceptable levels throughout 2012. There are no indications of reduced activity in the short term, in fact I would argue that more and more companies are becoming very selective in the work they are undertaking to ensure they are in a position to optimise profitability from the capacity they have available.

■ **One of the trends in recent market figures was the confidence amongst steel stockholders who re-built the stocks which had been depleted in the difficult years up to 2011. Will the steel trade allow its stocks to run down again in view of the uncertain outlook, particularly in the Eurozone?**

■ I think that the economic outlook in the Eurozone is a factor, although steel distribution centres in mainland Europe are probably aligning their steel stocks in terms of supply and demand, and controlling inventory levels based on stock days. In the past mainland European service centres

have operated with higher levels of stock or stock days. They are now adopting a similar stance to that taken in the UK whereby stock levels have been significantly reduced and maintained at levels which are considered to be sufficient. People are working more efficiently within their range. They are not speculating, and the majority of the material supplied to the market is now from imports, not from domestic supply. These imports tend to be more European as opposed to from the rest of the world, because availability, competitive pricing and in some cases, quality, is the deciding factor. So, what does it mean in practice? Steel service centres are operating with stock levels that may have some gaps within their range, but in the main they are operating with reduced levels of inventory. The key is that material is readily available. As a service centre you might therefore ask yourself: »Why do I want to keep this stock? It's taking up space, it's costing me money. I can buy it when I need it and in the amounts that I need and, in the main, I can bring it in from the UK or Europe at short notice.«

■ **Going by the ISSB's statistics, the ratio of imported to exported steel products has changed considerably. Imports of steel products are now much higher – more or less the same as in 2008 – while exports have consistently shrunk by about a quarter over the same period. Is the UK becoming even more dependent on foreign steel supplies?**

■ In the last four years imports of steel into the UK have gone from the mid 40 to the mid 50 % of supply. Overall, consumption is approximately 10 million tonnes per annum, of which NASS core products represent circa 6 million tonnes. Yes, imports have steadily increased and are likely to remain the major supply route to the UK steel market for the foreseeable future.

■ **Is another reason for imports increasing in the UK the fact that material from the rest of the world is being supplied to the UK market?**

■ Yes, steel does come from rest of world markets, with China, India, Russia and Turkey being the major sources of supply. There has however been a significant swing from RoW supply to European supply due to these sources normally involving longer lead

NASS: new website

NASS recently modernised its website www.nass.org.uk, which now offers an impressive range of facilities, including a secure members' area, a calendar of events and, of course, the extensive News Update.

Peter Corfield comments »Our website has to become the portal for our communication, with both the membership and the external world. We would like our website to be user-friendly, active and provide interest for everyone involved in steel processing and distribution. In terms of where we

times, and the biggest danger with shipping any great volume is that by the time the steel arrives in the UK, it is no longer at the right price. Steel service centres may have thought they had concluded an advantageous transaction when ordering the steel, but upon arrival that might no longer be the case. That is why there is less being speculated and purchased from RoW markets.

■ **On the list of NASS members, there are now ten large groups active nationwide which seem to dominate the market. Is there a trend towards consolidation in the sector or could this be a situation where the large groups cover a wide range of general products, whereas the smaller companies act more like »boutique« suppliers with highly specialised products and services?**

■ There is no generic way of looking at it, but the last two major changes in the UK were Barclay & Mathieson being acquired by Stencor, and Austin Truman exiting the heavy sections market when the Murray Group was re-structured. However, there have not been any casualties, the sector remains quite robust and this is confirmed in our discussions with the risk underwriters, who have developed an appetite for the sector. Yes, the bigger groups have got both specialisation and also have the opportunity to serve local markets. There have been announcements by some of the major groups to close or rationalise sites. They are undertaking these restructuring activities over a specified time scale. There is no doubt that there will always be a place for the small niche suppliers, the local service centres, and in actual fact, I think that this sector will

grow from here, development of the »Members Only« facility is paramount as we seek to provide more links for members. We are already involved with the CBI, the Chamber of Commerce and the Health & Safety Executive. We want these links to create a knowledge share for both members and associated partners. Our events calendar continues to grow and will feature prominently to visitors to the website, whereby both professional and social activities can be clearly seen.«

grow. The larger distributors are all now actively processing and distributing on a »hub and spoke« basis, whereby they have major facilities with smaller units feeding off them. Customers will then either buy directly from the central hub or buy locally, depending on what the products are, the frequency with which they're needed, the time restraint and so on. I don't think that there will be much further amalgamation.

In conclusion, I think that the existing groups are likely to stay in place. It may be that they acquire or that they rationalise, but that will be down to their own philosophy and their geographical approach to the UK market. In the long term, however, you might have fewer medium-sized groups going forward as the emphasis will be on having very large or small facilities processing and distributing steel products.

■ **One left-over from the financial crisis in 2008 was the tight credit supply to the steel trade. NASS counteracted that by trying to improve mutual understanding between the stockholders, government and the finance industry. Have you been able to alleviate the situation, or are there, by now, alternative solutions?**

■ Discussions are on-going with all interested parties. NASS is delighted to have all the major players in the risk management sector as Associate Members, with whom we have regular dialogue and this has obviously improved communications and understanding. That is of particular relevance given that 2012 has probably produced a number of financial returns which were disappointing and gave potential cause for concern. If you

go back in time, this would probably have started a ripple of credit withdrawals or led to a tightening of credit limits in the process. I think the regular dialogue and better understanding of the business scenario has certainly helped that situation. In addition we also meet on a quarterly basis with the Bank of England, whereby we represent the steel service centre sector and, in turn, ensure everyone has a better appreciation of what NASS members represent.

In addition to all the things we have spoken about so far, another area NASS will be focusing on is that of aspects of the environment and climate change. In the past many people have not considered it relevant, but if they review the costs involved relating to the carbon tax they pay on their utility bills, then they might realise that there is an issue. So, one of our main objectives for 2013 will be to review the eligibility of our members to be embraced by umbrella arrangements which can significantly reduce carbon tax costs. This will not apply to all our membership, but we seek to maximise where opportunity presents.

Finally, and with the above in mind, it is our intention to revamp our current motto »Safer Steel«. This has served the purpose of raising the awareness of handling and processing steel in a safe manner. In view of the advent of demand on the environment and the impact of recycling, climate change and sustainability, NASS is considering the introduction of a new motto which embraces these

concepts. Hence a new motto of »Safe and Sustainable Steel« is currently under consideration by the governing body of NASS, namely the National Council. It is anticipated that the revised motto will be finalised and agreed at the AGM to be held in July 2013.

Mr. Corfield, many thanks for answering these questions.

(EE 130104861) ■

i The following article can be downloaded from the »stahlmarkt« website.

Looking for a recovery

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