



The voice of steel distribution

Safe and Sustainable Steel

To: All NASS Members
From: Peter Corfield, Director General
Date: 15th December, 2016

Dear Colleague,

2016 REVIEW AND LOOKING FORWARD INTO 2017

This year has certainly proved to be an “interesting” one with the Brexit vote providing the major talking point. The immediate aftermath of the EU referendum was characterised by heightened volatility in financial markets. While equity prices have since risen above pre-referendum levels, Sterling remains weak and potentially volatile. The forecast for GDP growth has been revised upwards to 2% as a result of economic activity being stronger than anticipated post Brexit. It also reflects that activity growth has remained resilient and business sentiment recovered from its post referendum fall, but is still considered “fragile” when uncertainty of the longer term outlook is factored into the assumption. Growth expectations for 2017 range from 1.3% to 1.5%, a cautious view against the previous number of 2%, and a combination of lower business investment and uncertainty remaining throughout the negotiation process that underpins this conservative forecast.

In terms of manufacturing, it’s been all change in the last three months, with output and order balances returning to positive territory for the first time since Q2 2015. Manufacturers’ confidence about the UK outlook has gained some ground due to larger than anticipated domestic activity. The export recovery is taking longer to materialise but this is considered temporary, with stronger growth in overseas markets and the continued weak exchange rate forecast to boost export demand going into 2017. The only “fly in the ointment” is the rising input costs as a result of Sterling depreciation. Manufacturers will have to reflect these costs as the increases are too significant to absorb. It should also be noted that some manufacturers will have benefitted from the previous two years’ continuous downward spiral of material prices, with the increases seen now only returning costs to 2014 levels in absolute terms.

Returning to the subject of Brexit, manufacturers require a carefully engineered process to support and protect industry in the UK. The UK Government has announced a new approach to backing British Manufacturing, a welcome change from the previous administration. However, the ambition of being an enhanced global trading nation must not be allowed to pressure negotiations and result in a clumsy exit plan which could do lasting damage to manufacturing in the UK and the wider economy.

The Government has indicated that in order to rebalance the UK economy it needs to strengthen our own industrial footprint. The renewed focus on industrial strategies is also welcomed, with the timing never better, as the Metals Strategy is currently being embraced by the UK Government and The Metals Council. A long term consistent Industrial Strategy can play an important role in boosting growth within the UK. It will require cross-party agreement to deliver consistency beyond the political cycle. The core sector strategies will require successive governments to take a long term view to be able to achieve long

term growth and prosperity within the UK. Hence, industrial strategies will need, as a minimum, a programme of action over ten plus years in order to maximise return for investments and give businesses real confidence to innovate, recruit, train and deploy skilled personnel in the process. It should also be noted that for the UK to be really competitive, the implementation of the Industrial Strategy is just as important as the Strategy itself. Typically within the UK this will mean significantly improving the decision making processes and increasing the speed and nimbleness of delivering on initiatives to enhance growth are formulated and rolled out.

It is good to note that consideration of a sector-led approach is being promoted to ensure industrial sectors where the UK holds a competitive advantage are to be further “backed” and hopefully create momentum to build upon for future benefit. At the same time the “place-based” approach is at long last also being promoted as the way forward. The UK in total can only achieve comparable productivity levels with Europe and Rest of World if industrial strategies are applicable to all regions of the UK and prosperity leveraged accordingly. On this latter point, addressing the infrastructure requirements in the UK will be central to ensure “pools” of employment can be widened and the efficiency of supply chains improved.

NASS Members continue to be pivotal in the supply chain to all key industrial metal sectors. NASS is represented on the Supply Chain Workstream of The Metals Council and is actively focussing on increasing opportunities within the UK to enhance sales and revenues, particularly within the manufacturing sector. The objectives for 2017 for the Supply Chain Workstream are focused upon:

- Targeting increased “local content”,
- Accessing innovation funding, and
- Addressing the issues of UK supply being maximised within the public sector.

All of these factors, if addressed, have the ability to significantly increase Gross Added Value. Supply chains are integral to the success of this ambition and NASS Members will hopefully benefit from this approach going forward.

The global forecast for steel production in 2016 is expected to be at a similar level to last year, circa 1.6 billion tonnes. Capacity utilisation remains the major concern, with 70% becoming the norm, some 10% below historical levels of “acceptable” capacity rates. The Chinese factor is still evident on a global basis, with exports likely to still be 100 million tonnes in 2016. Fortunately European and UK imports of Chinese product are significantly down on last year but the resultant displacement of domestic volumes, particularly in South East Asia, has the potential to create other sources to be attracted to the European marketplace.

Within the UK, demand in 2016 is likely to be similar to those seen in the last couple of years. Likewise, the demand for NASS Core Products will be circa 6 million tonnes, a level experienced for the last seven years. NASS Sales will also reflect a similar pattern, with circa 50% of demand being met by NASS Members’ activity.

The market conditions within the UK have certainly taken a significant shift in the last 6 months which has already been encapsulated in a circular published at the beginning of December: [UK Steel Price Increases Inevitable throughout 2017](#)

NASS statistics for 2016 indicate again mixed fortunes across the Product Groups but the overall position is circa 3% down on last year's numbers. The best performance has again been with the Long Products portfolio, which is 5% above 2015 numbers due to Structural Sections being 10% ahead when compared to last year. Plate and Profile numbers reflect the reduction in UK demand for Reversing Mill Plate, which is 13% down on 2015 levels. This product is still suffering from reduced activity levels from the Yellow Goods market and Oil & Gas sectors which remain depressed. The Flat Products portfolio has seen an 8% increase in overall terms, with Hot Dipped Galvanised product being 17% up for the first three Quarters of 2016. Against this background, NASS numbers are somewhat disappointing with only a 1% improvement in Galvanised products evident. The reduction in Hot Rolled and Cold Reduced products has generated a shortfall of 8% after three Quarters of 2016.

The demand for UK steel products going forward into 2017 is probably demonstrating similar, if not better, activity as the year progresses. However, the major factor outweighing the volume shortfall is the revenue opportunities which should create acceptable returns for 2016 and next year as the positive signs are forecast to remain well into 2017. The only issue likely to be facing NASS Members will be achieving acceptable exposure cover with Risk Underwriters as steel price increases are likely to be 40/50% above the low point of March 2016. In summary, steel service centres should be looking forward with some optimism to the year ahead and hopefully this will be reflected in profitability for all concerned.

So, what of NASS in 2016?

NASS continues to build on its solid foundation and seeks to provide Members with "value for money". A summary of 2016 is shown below:

- NASS is a Member of the Metals Forum and, together with like-minded Associations, is involved in promoting and seeking to optimise benefits for all involved in the Metals Sector. It also provides governance of The Metals Council, established midway through 2016.
- NASS has maintained its quarterly meetings with the Agents for the Bank of England. These sessions have provided the Bank with important data for inclusion in their Quarterly Review discussions which influence Bank of England's Monetary Policy Committee deliberations. The latest Agents' Summary of Business is available each month on the publications page of the NASS website.
- NASS has conducted reviews with the major UK Risk Underwriters throughout the year. Plans are already in place for this to be repeated in 2017. Given the significant changes to the market conditions and increase in steel prices, pressure on credit limit exposures has come to the fore. The benefit of having these liaison meetings has ensured that the Risk Underwriters have been kept informed of market circumstances and provided an information exchange which has

benefitted all involved. The key message throughout 2016 has been to communicate and not generate “surprises” in the process. The robust nature of NASS Members and their ability to manage the economic cycle has created continued appetite for Risk Underwriters to be involved with our sector. The Annual NASS Credit Seminar was once again a major calendar event, which reiterated the above and also highlighted the issues of recognising “financial distress” and fraudulent practice.

- The Health & Safety Committee remains a cornerstone of NASS and has again produced and provided significant guidance to the steel service centre sector. Meetings have taken place throughout the year in conjunction with the Health & Safety Executive. NASS has been informed that the steel service sector is considered low risk and only likely to attract Inspectorate visits in the case of a significant incident/occurrence within a business environment. The output of those sessions has impacted and influenced health & safety aspects of the steel service centre environment. It is noted that Occupational Health has come to the fore. This was the main focus at this year’s Safety & Health Awareness Day (SHAD) which was again a successful event and in particular highlighted the issues of Metalworking Fluids.
- The revised HSG246 “Safety in the storage and handling of steel and other metal stock” has been completed and endorsed by the HSE. This document provides a reference point for the Inspectorate and Local Authorities whilst undertaking site visits undertaken in the UK. A copy of the document can be seen on both the HSE and NASS websites: [HSG246: Safety in the storage and handling of steel and other metal stock](#)
- In order to further improve accident performance, NASS together with other members of the Metals Forum, has generated common accident statistics utilising the RIDDOR criteria. This has enabled benchmarking and sharing/learning to take place on an ongoing basis throughout 2016.
- NASS is now seen by EUROMETAL as the lead body in Europe in terms of Enhancing Best Practice on Health & Safety matters. Hence a number of NASS reports and campaigns have been included on the EUROMETAL website to help improve the awareness of health & safety issues within European steel service centres. NASS will be presenting a Health & Safety Update to the World Service Centre Summit to be held in Düsseldorf in May 2017.
- Product Group Meetings are seen as a key component of the NASS offering. The meetings provide networking opportunities for Members to discuss sector issues in a compliant manner. These discussions have provided a good interface for both NASS Members and suppliers to comprehend the circumstances of the UK marketplace. Whilst there appear to be significant benefits to all concerned, attendance at the meetings for some Product Groups has once again been disappointing. Hence, in 2017, NASS will be seeking to “beef up” attendance at Product Group meetings by inviting relevant service centre companies to engage in the discussions. Some of these will be past members who hopefully may be persuaded to re-join the Association in due course. It is also intended to vary the location of the meetings to include site visits to steel producers and, where possible, create networking opportunities on the evening of these meetings. The recent visit to Liberty Steel Newport and the inclusion of a networking event

following the meeting of the Flat Products Group and Suppliers was a good example of the Product Group offering going forward. The networking that evening, sponsored by Liberty and NASS was a great success. The possibility of also being involved with the evening summer function of ISTA held in Birmingham each year is also under discussion to further enhance Members' networking opportunities.

- NASS remains a Member of the National Federation of EUROMETAL, which is the representative body of Steel Service Centres throughout the EU28. Regular updates on market data, economic forecasts and Business Reports are made available for NASS Members. These will, in future, reside on the Members Only section of the NASS website.
- NASS has enjoyed successful engagement on training activities throughout 2016. The **Metallurgy, Essentials for Inside Sales** and **Health & Safety Passport Plus Courses** were all fully subscribed and future course dates are notified on the website. Going forward, NASS is already considering other training providers to expand what is currently a very successful programme.
- NASS did not undertake Mill Visits in 2016 due to circumstances surrounding the UK steel industry, however, plans are already in place to reinstate the visits in 2017. These visits provide awareness of steel production and are very informative for participants who gain a perspective of how steel is manufactured.
- The development of the NASS website is an ongoing process. In 2016 discussions have taken place to revamp the site's capability to facilitate newsfeeds and become the portal for NASS information. As part of the updating process, the Health & Safety archives have been further refined and now also provide Legislation Updates twice a year.
- NASS has maintained its Membership of CBI and Black Country Chamber of Commerce. These organisations provide Members with useful insights on business matters. Publications of note can be seen on the Publications page within our website.
- The NASS calendar in 2016 resulted in successful social, networking and informative gatherings taking place. The Annual Dinner attracted over 350 people and £4,839 was raised for The President's Charity, The Bobby Moore Fund for Cancer Research UK. The other key networking events, namely the NASS Golf Day and Race Day, were fully subscribed and enjoyed by all present.

The programme for 2017 will include the following:

- Annual Credit Seminar
- Safety & Health Awareness Day (SHAD)
- Golf Day
- Race Day
- Annual Dinner

The dates can be seen on the NASS website, under Events.



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So, as another year comes to a close, we can reflect on the above with some pride. NASS understands the conditions of the market in Q1 2016 made life difficult for Members, however, the following three Quarters will hopefully have provided positive revenue opportunities which will continue into 2017. Notwithstanding this situation, NASS is reviewing how to engage with its Members taking account of time, effort and cost involved in attending NASS meetings. The President's Committee are currently considering introducing an Incentive Scheme to reward existing Members who introduce new members to NASS going forward. Furthermore, suppliers will be encouraged to join as Associates to ensure liaison meetings are beneficial for all.

In addition, NASS will be reviewing the promotion of its activities to both Members and potential members to reinforce the NASS offering. With this in mind, NASS will be taking up Affiliate Partnership status with the Engineering Employers' Federation (EEF). All NASS Members will then, on registering, have the opportunity to become an Affiliate Member themselves and have access to information from EEF. Furthermore, if Full Membership modules of EEF, such as Legal and Human Relations are taken up, a 10% discount will apply.

In conclusion, NASS has hopefully consolidated its position within the UK and looks forward to your continued support in 2017. It just remains for Karen, Joy, John and myself to wish all Members and their staff a Happy Christmas and prosperous New Year.

Kind regards,

A handwritten signature in blue ink, appearing to read "Peter Corfield".

Peter Corfield
Director General