The steel industry is in incredible trouble today, says Peter Marcus

The following is an excerpt from an article in India’s Economic Times newspaper1 on 16 May 2015 based on an interview with Peter F. Marcus.

Economic Times (ET): Globally, the picture looks grim. Is the steel industry in trouble?

Peter Marcus (PM): The steel industry is in incredible trouble today. You can imagine so when the Chinese are exporting a tonne of steel at US$50 below their marginal cost. So the Chinese, who have oversupply, have gone on an offensive. I call it the “Chinese export armada.” When the Russian rouble devalued, the Russian cost went down from US$425 to US$300 a tonne. The Russians cut their price from US$530 to US$370. The Chinese matched the Russians. The other steel mills in the world, who were exporters, panicked.

So now we have the leading companies in the world — Nippon Steel, JFE, POSCO, Hyundai — with the best-quality products and others selling steel at marginal cost of about US$380 a tonne at the port. The Chinese are selling below marginal cost. This is a problem. In India, with its trade agreement, the duty on the steel companies from Korea and Japan is negligible. The mills in India are threatened.

ET: Does this have a cascading effect?

PM: We have a condition where steel companies everywhere in the world need protection. The U.S., with a strong dollar and higher prices to begin with, is having an avalanche of foreign offerings. So the U.S. steel mills need trade protection. All the (steel) mills need trade protection.

First of all, in China hot rolled steel sells at US$333 a tonne. In India, it is US$480 a tonne. In the U.S., it is US$520 a tonne. It used to be US$783 a tonne some time ago.

ET: So amid the slower growth of the global economy and contagion, steel demand is going nowhere.

PM: We are claiming at World Steel Dynamics that steel production in the world this year will be down 5%. And the World Steel Association has done public surveys in 30 countries, and says it is going up 0.5%.

---

**ET:** Are you saying that demand will decline across markets?

**PM:** The Chinese demand is in the process of dropping because fixed asset investment in China went from 38% to 50% of GDP since 2004. That led to unsustainable spending. China has rebar production of 250 million tonnes. In comparison, the U.S. has 8 million tonnes and India has 28 million tonnes. In China, because of excessive spending and falling housing prices... the decline in steel demand in China will result in a 50- or 100-million tonne reduction in capacity in 5–10 years.

**ET:** Will the oversupply in China hurt other markets, including India?

**PM:** China has a huge economy and 20% of the GDP comes from exports... my opinion is that the Chinese exports are the reason for our problems and they’ll be forced to end their mercantilism. At the same time, the global economy is in trouble, and it needs protection. Because of this oversupply, collapse of material prices, collapse of steel prices, the total crisis in steel companies in 2015–16 will be a disaster, and that’s going to lead to a net capacity reduction. A lot of rationalization is likely, and probably the beginning of a recovery is expected only in 2017.

This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors.

---

**Did You Know?**

**ArcelorMittal Unveils Next-Generation Steel House Prototype**

ArcelorMittal's construction and global R&D divisions in Spain have joined forces with leading Spanish architect Sergio Baragaño to reveal a prototype for a house-of-the-future forged from steel.

Unveiled at ArcelorMittal Global R&D Asturias, the housing prototype is an example of an alternative approach to construction that generates less waste, improves the safety of construction workers, and produces cutting-edge buildings compliant with the latest safety and energy-efficiency regulations.

Based on Baragaño’s innovative “b home” concept, the prototype uses a pioneering “modular” approach for constructing high-performance homes and offices that deliver value from a cost- and resource-efficiency perspective. The structures in the prototype were assembled in a workshop by Madrid-based Prismas, and then transported to the ArcelorMittal R&D site, where construction was completed in just 72 hours.

The prototype features a host of ArcelorMittal steel in the building’s structure, roof, façade, panels and decking. Produced at ArcelorMittal Asturias, the steel was coated at ArcelorMittal Lesaka and transformed at the company's construction plant in Berrioplano. Ondatherm sandwich panels were selected for their aesthetic value and excellent thermal, acoustic and fire-resistant properties.

Baragaño’s “b home” approach ensures that housing and office units can be easily extended or adapted to meet a user’s changing requirements. In this way, a one-bedroom house can be converted into a family residence by simply adding more modules horizontally or vertically. The method also makes it possible to disassemble a building and reinstall it elsewhere.

Another key characteristic of the “b home” approach is the speed of construction, with the possibility of building a property within four months of commissioning. Baragaño has announced a project to build 800 “b home” houses in Chile, with similar projects planned for Panama and Botswana.

Photo of prototype courtesy of Verónica Carreño (www.vuelaonada.es).