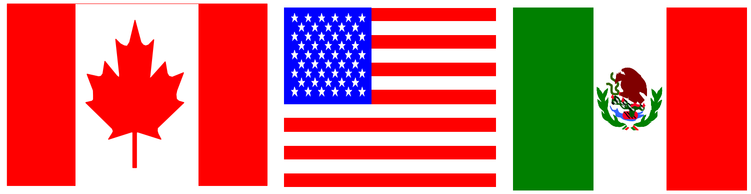


North American Steel Industry: Recent Market Developments and Key Challenges Going Forward

OECD Steel Committee
May 6-7, 2010
Paris, France
*****

American Iron and Steel Institute (AISI)
Steel Manufacturers Association (SMA)
Specialty Steel Industry of North America (SSINA)
Canadian Steel Producers Association (CSPA)
Mexican Steel Producers Association (CANACERO)

Presentation Summary

I. NAFTA Economic Conditions and Outlook

II. NAFTA Steel Market Conditions and Outlook

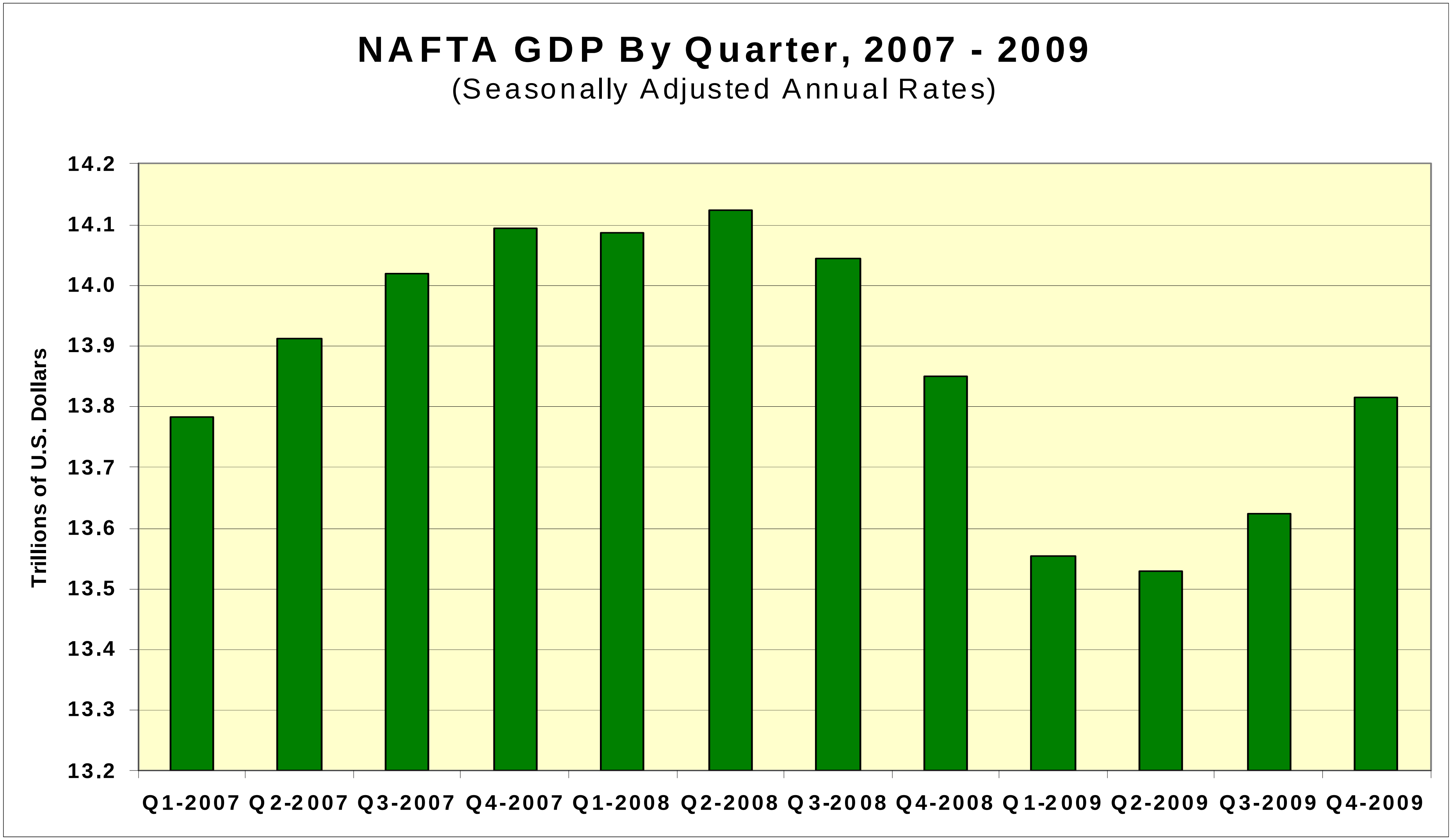
III. Major NAFTA Industry Concerns Going Forward

I. NAFTA Economic Conditions and Outlook

The NAFTA Economies: A Hesitant Recovery

- In 2008 and 2009, the NAFTA economies experienced the deepest recession since the Great Depression
- It appears that the NAFTA economies are now beginning to grow, but at a modest rate
- GDP and employment are still well below their pre-recession levels
- A number of factors could slow or even reverse growth in all three countries

The NAFTA Region Is Starting to Recover from An Unusually Deep Recession



Source: OECD

Economic Analysis & Trends

United States

- GDP recovery has begun, but 4Q09 growth was inventory-driven, and 2010-11 will average 3% at best.
- Slow, extended recovery is underway, but unemployment is at 26-year high and will be slow to decline.
- Credit remains constrained. Capital construction continues to drag. Equipment and machinery positive.
- Housing is improving from abysmal levels while automotive has shown some improvement.

Canada

- Economic recovery has clearly begun, but pace is expected to slow down in 2H10.
- Government and consumer spending will lead 2010, but unemployment remains a concern at 8%.
- Non-res construction and machinery remain weak and will decline in 2H10 as stimulus effect slows.
- Canadian dollar has strengthened significantly in past year, creating competitiveness challenges.

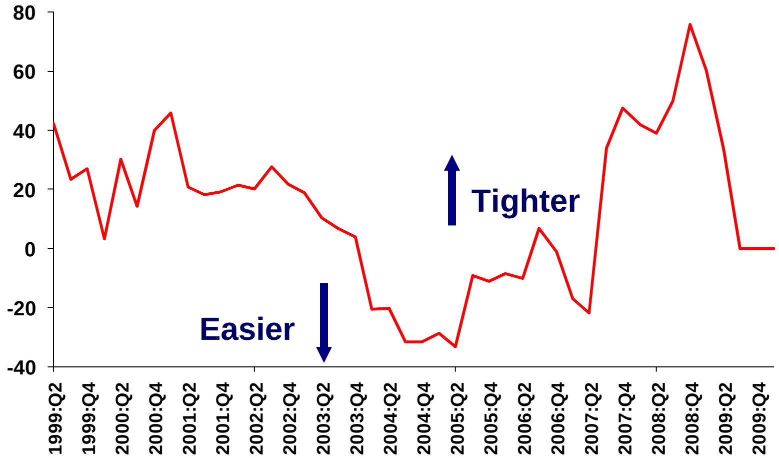
Mexico

- Emerging recovery driven by manufacturing exports.
- Outlook somewhat improved on gains in industrial production, exports, investment.
- Recession-induced low trade gap in 2009 is rising again.
- Uncertainties (including higher taxes, inflationary pressure, weak consumer credit) limit GDP recovery.

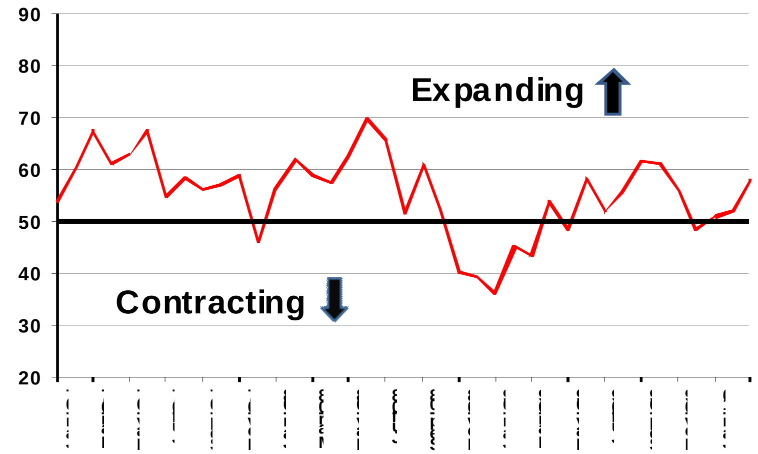
Sources: Bureau of Economic Analysis (US) ,CSSPA, Canacero

Canada: Economic Conditions Moderating

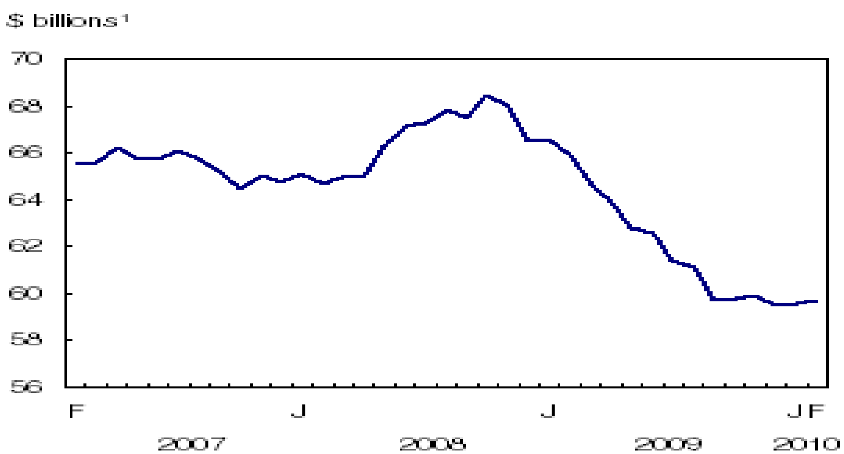
Bank of Canada Senior Loan Officer Survey: Q1 2010



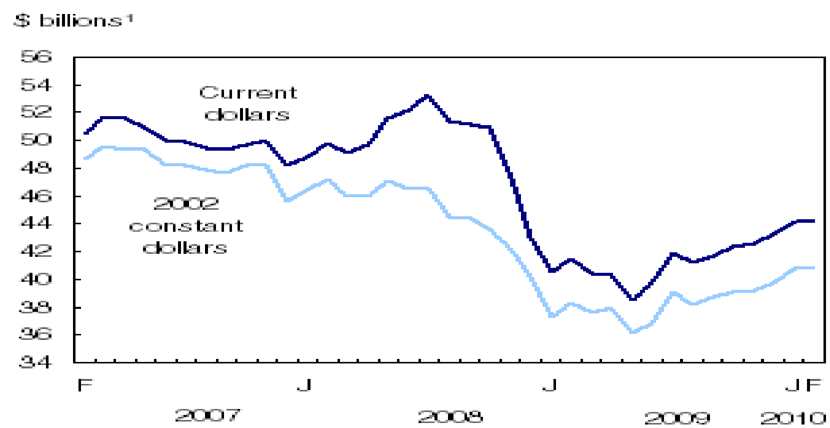
Ivey Purchasing Managers Index Since January 2007



Canada: Manufacturing Inventories Through February 2010



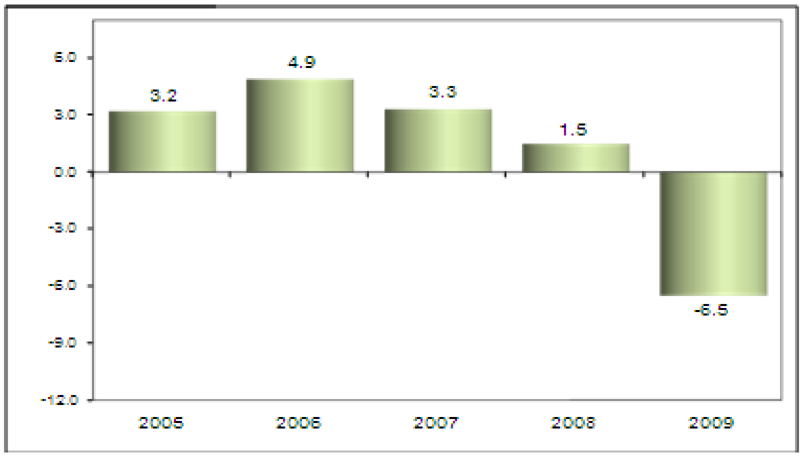
Canada: Manufacturing Sales Through February 2010



Sources: Bank of Canada, Richard Ivey School of Business, Statistics Canada

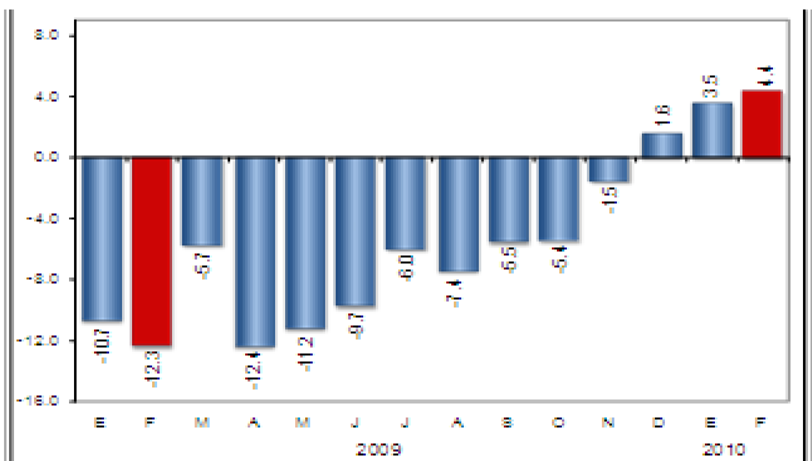
Mexico: Recovery Driven by Industrial Production

Mexico: Gross Domestic Product, 2005 - 2009
(Annual rate of growth - %)



Mexico: Gross Domestic Product, Quarterly, 2008 - 2009
(Annual rate of growth - %)

Mexico: Industrial Production, Monthly, 2009 - 2010
(Annual rate of growth - %)



Mexico has started to emerge from an historical crisis.

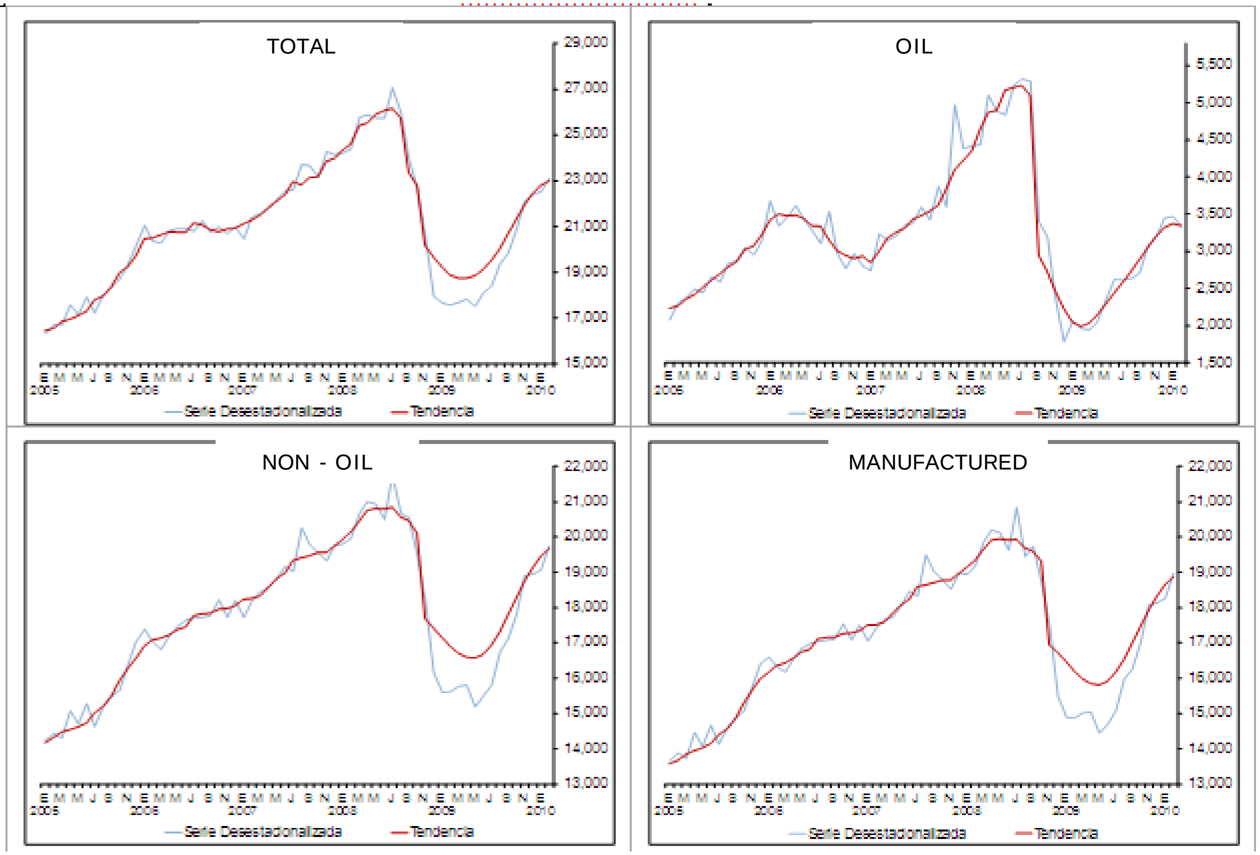
Industrial production (IP) has started to grow after 21 consecutive months of negative growth.

IP has now seen positive growth rates for 3 straight months.

Source: INEGI

Mexico: Manufactured Exports Key to Recovery

Mexico: Exports, 2005 - 2009
(Annual rate of growth - %)



For nearly a year, exports had negative growth rates. Now, they are growing at + 29 %

Manufactured exports: + 25 %

Non-automotive exports: + 12 % and represent 75 % of total

Automotive exports: +84 % and represent 25 % of total

Exports to the US account for 80% of total

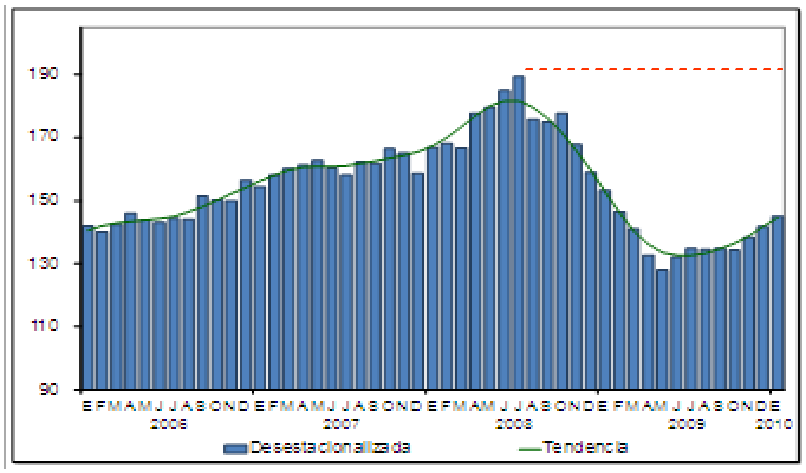
But exports to the US are still below 2008 peak levels.

Source: INEGI

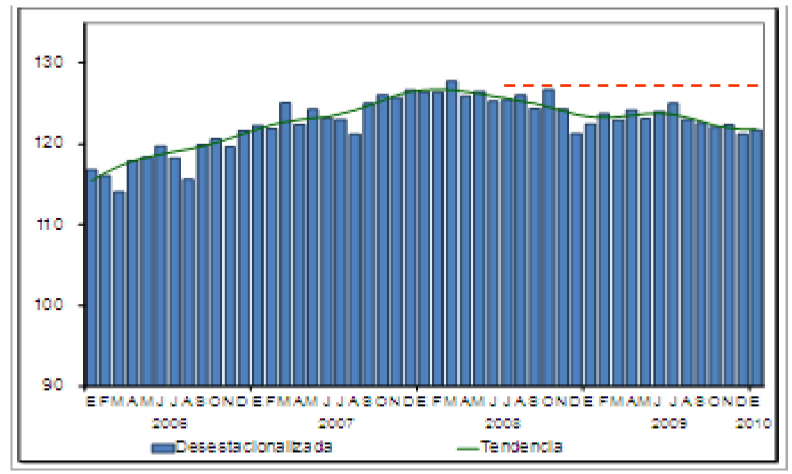
Mexico: Investment and Employment Still Lagging Behind

Mexico: Investment, 2006 – 2010 (February)
(Index: 2003 = 100)

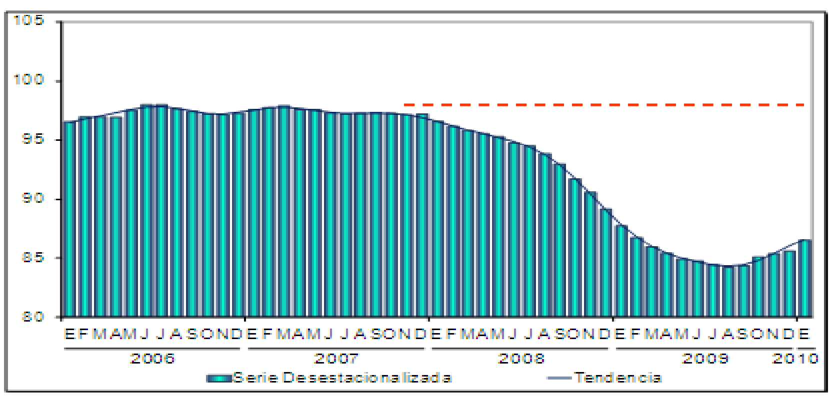
Machinery & Equipment



Construction



Employment in Manufacturing Sector, 2006 – 2010 (Ene)
Index 2003 = 100



In annual real terms, investment in January was still registering negative growth: - 4.8 %

Machinery and equipment: -9.4%

Construction: -1.9 %

Capital good imports: - 9.9 %

Source: INEGI

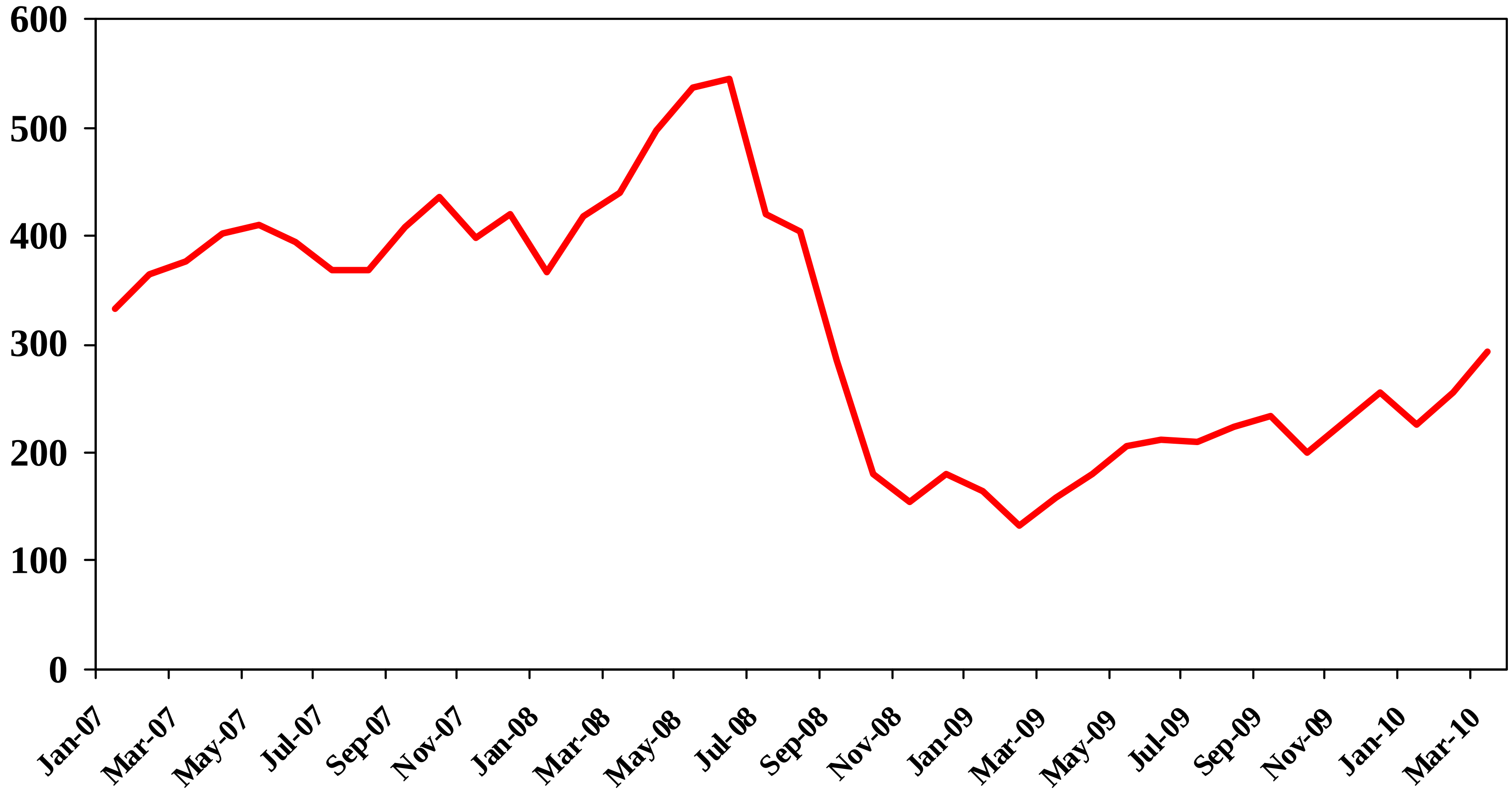
II. NAFTA Steel Market Conditions and Outlook

The NAFTA Steel Industry: An Equally Hesitant Recovery

- The NAFTA steel industry experienced a sharp drop in production in 2009 as a result of the "Great Recession"
- Production has begun to grow again, but capacity utilization is still well below historic levels
- Weakness in construction (especially non-residential) and other end-use sectors could limit the recovery
- Import market share remains significant, in the context of substantial unused capacity in the NAFTA steel industry

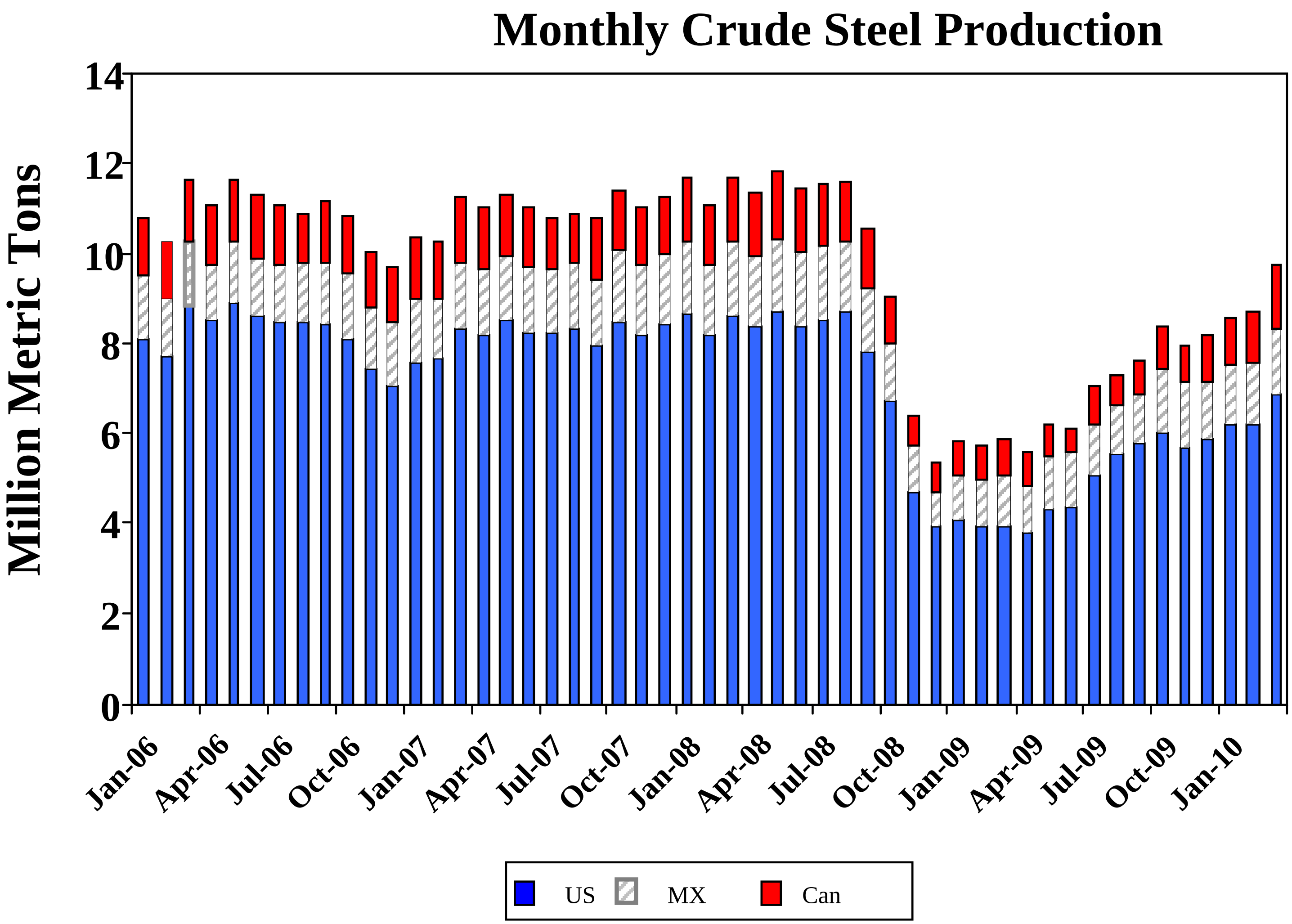
Stock Prices for American Steel Producers Continue to Show the Effects of the Economic Crisis

Closing Price of Dow Jones U.S. Iron and Steel Index, Jan. 2007-March 2010



Source: Google Finance.

North American Steel Production Remains Far Below Historic Norms

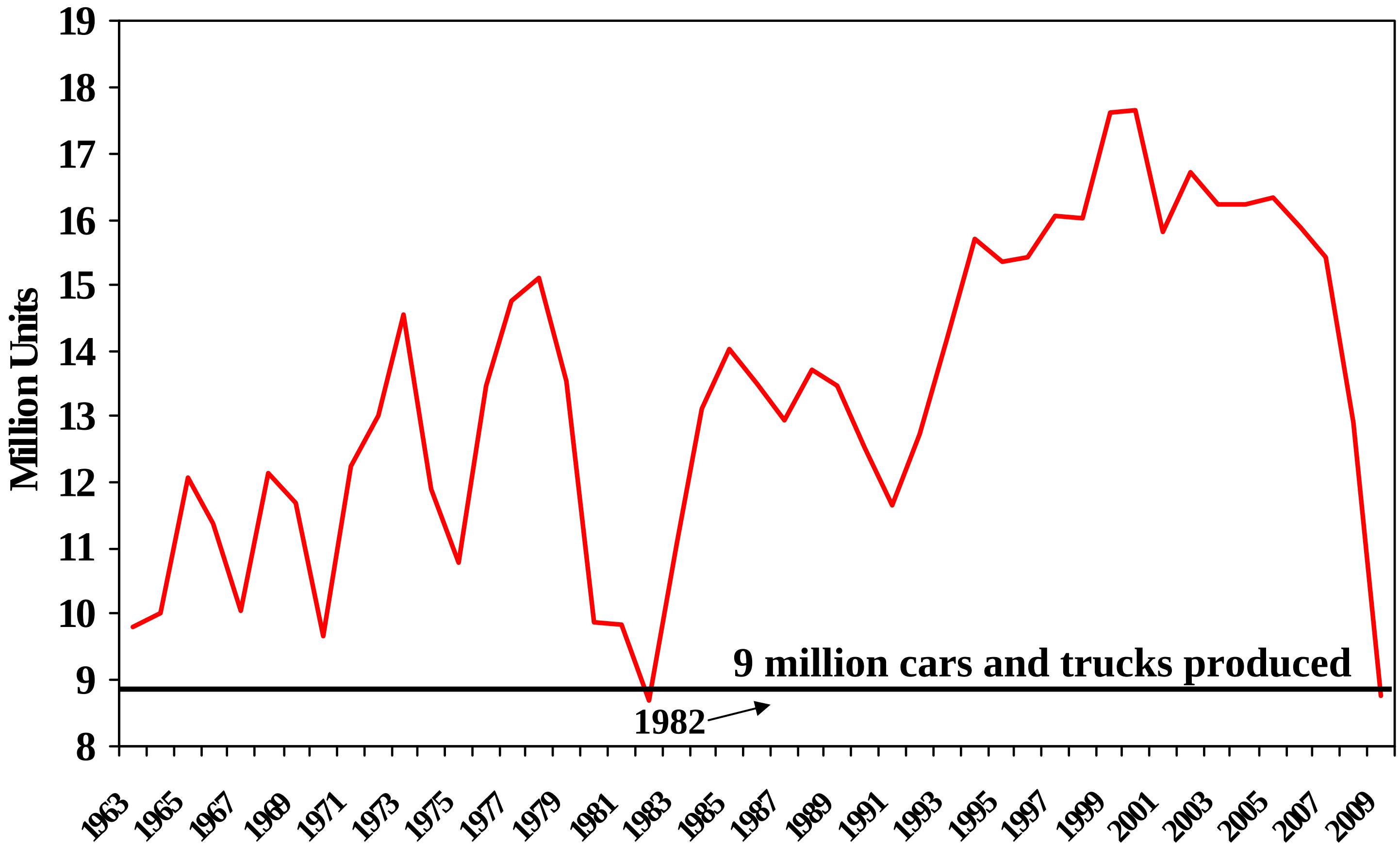


After falling to **below 50%**, NAFTA capacity utilization has recovered to **around 70%**, but is still **well below** historic levels

Source: Worldsteel

2009 Was Only the Second Year Since 1963 in Which North America Produced Fewer than 9 Million Cars and Trucks

North America Car & Truck Production, 1963-2009

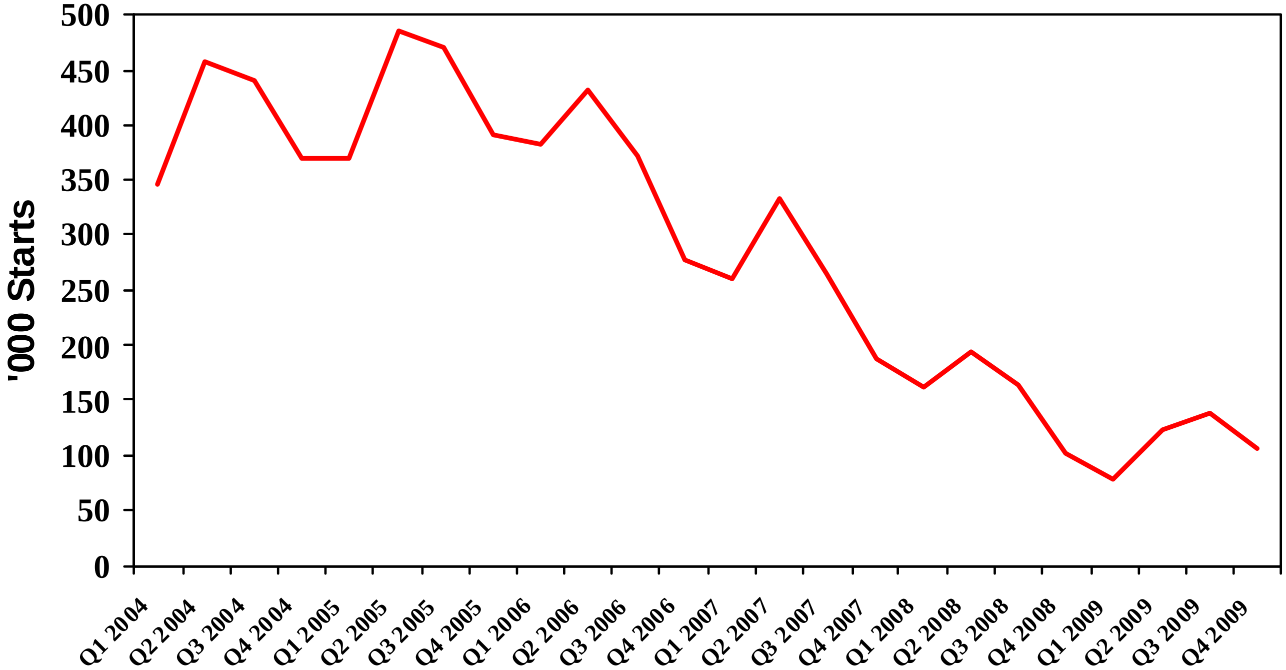


Recent gains in North American car and truck production notwithstanding, it is projected that it will take **up to five years** to return to pre-crisis ”normal” levels.

Source: Ward’s Automotive.

The U.S. Construction Market Remains Weak

U.S. Single-Family Housing Starts, Q1 2004 through Q4 2009



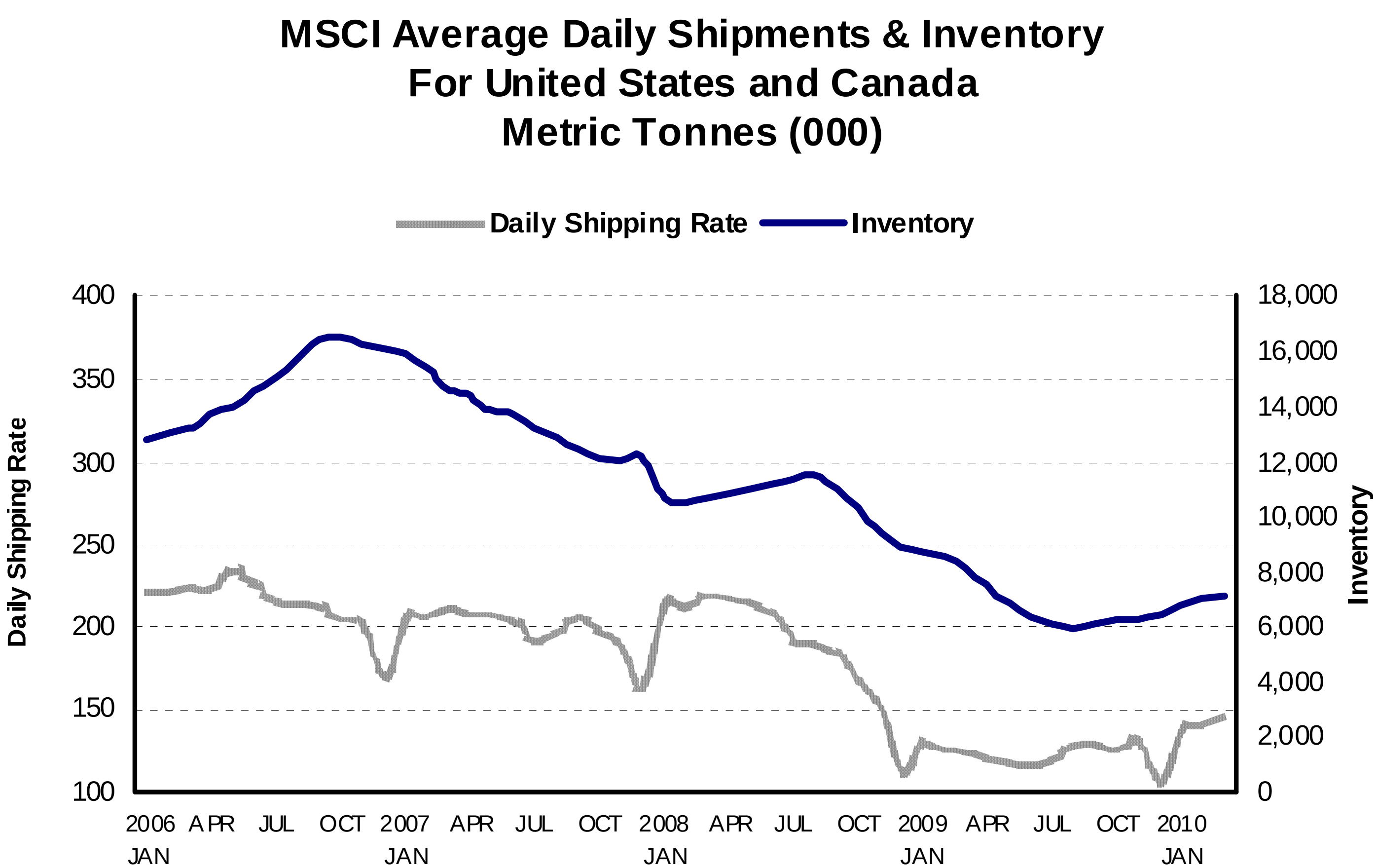
•**Foreclosures** remain a problem for both residential and non-residential construction.

•While residential construction is projected to increase, it is not expected to regain its 2008 level until **2013**.

•The value of non-residential construction put in place fell by 9% from 2008 to 2009, and is projected to continue falling **through 2011**.

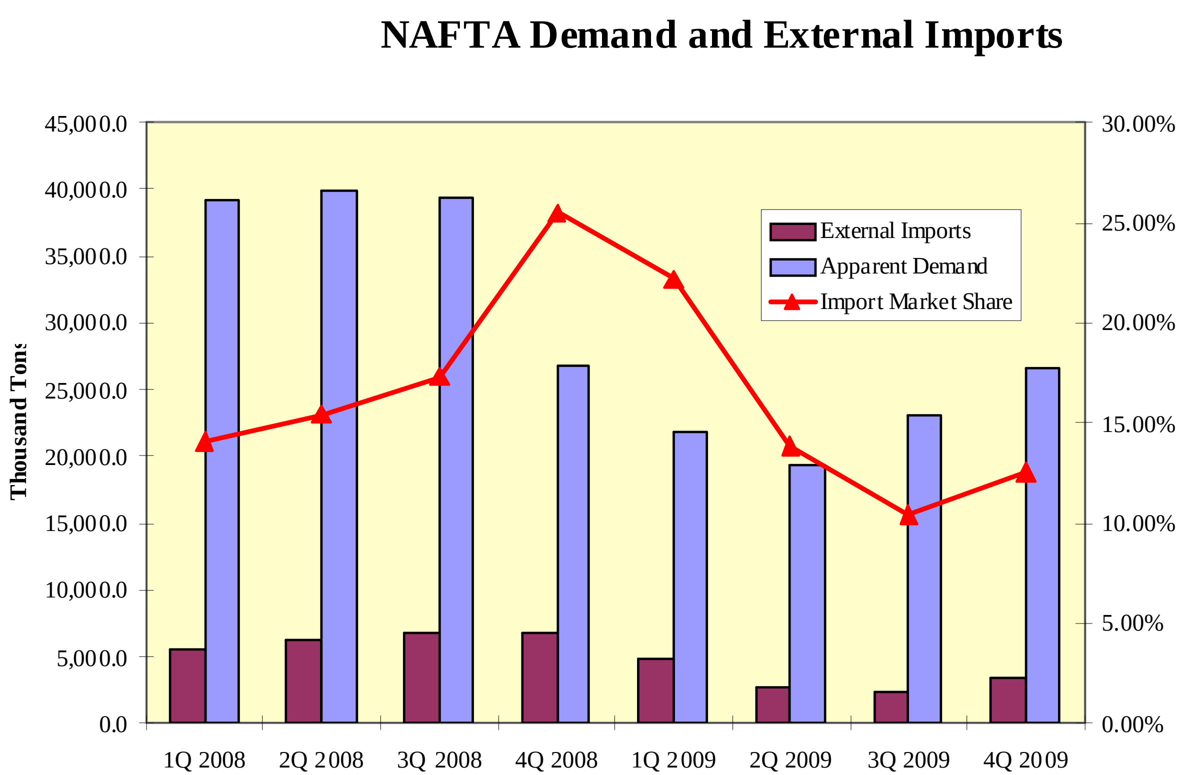
Source: U.S. Census Bureau.

NAFTA Service Center Inventories Remain at Their Lowest Levels in Many Years, but Reduced Demand is Keeping Restocking from Taking Place



- Service center demand has begun to rise, but is still **well below** previous levels.
- Daily shipments have returned to the levels of late-2008, but remain **far below** peak 2008 levels.
- Inventories are **less than 65%** of their historical averages.

NAFTA Import Market Share Has Remained Significant Despite Substantial Available Capacity in North America



- NAFTA steel demand and domestic shipments have fallen by 34% and 29%, respectively, since peak levels in mid-2008.
- Non-NAFTA import market share actually **increased** in 4Q ‘09.
- NAFTA steel producers have **more than adequate** net capacity to meet home market demand in 2010.

Source: AISI, World Steel Association

The Worldsteel Short Range Outlook Shows that, Despite an Improvement from 2009 to 2010, Market Conditions Remain Poor

United States

Million MT	2009 (e)	2010(f)	Change (%)
Crude Steel Use	65.1	81.8	25.5%
Finished Steel Use	57.4	72.7	26.5%
Exports	8.5	11.3	32.9%
Imports	12.9	13.7	6.2%

Canada

Million MT	2009 (e)	2010(f)	Change (%)
Crude Steel Use	10.6	13.1	23.9%
Finished Steel Use	9.5	11.8	23.9%
Exports	4.9	6.4	29.6%
Imports	6.0	7.7	28.3%

Mexico

Million MT	2009 (e)	2010 (f)	Change (%)
Crude Steel Use	17.7	22.1	24.5%
Finished Steel Use	13.9	15.5	10.9%
Exports	2.0	2.4	20.0%
Imports	3.2	3.6	12.5%

Survey of the Short Range Outlook Spring 2010 NAFTA Region

worldsteel ASSOCIATION

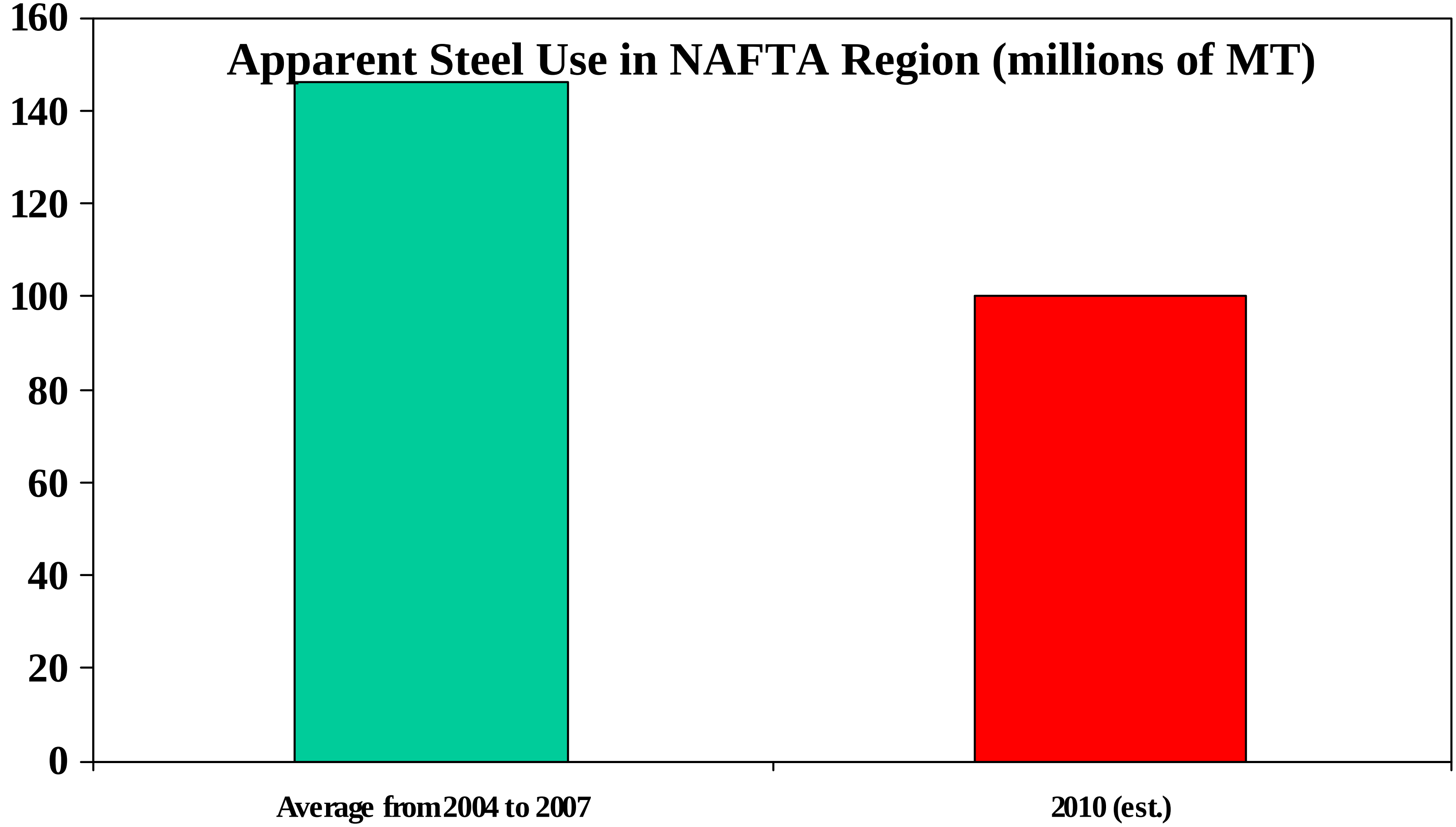
Apparent Steel Use (ASU)

(Million MT)	2004	2005	2006	2007	2008	2009 e	2010 f
Finished Steel	**149.0**	**138.3**	**155.7**	**141.2**	**129.7**	**80.9**	**99.9**

From 2004 to 2007 (the last four full years before the economic crisis began), apparent steel use in the NAFTA region averaged 146 million MT/year. This year's forecast of 100 million MT is **32 percent below** that average.

Source: Worldsteel Economic Studies Committee

In 2010, Apparent Steel Use in the NAFTA Region Will Remain *More than 30 Percent Below Pre-Crisis Levels*

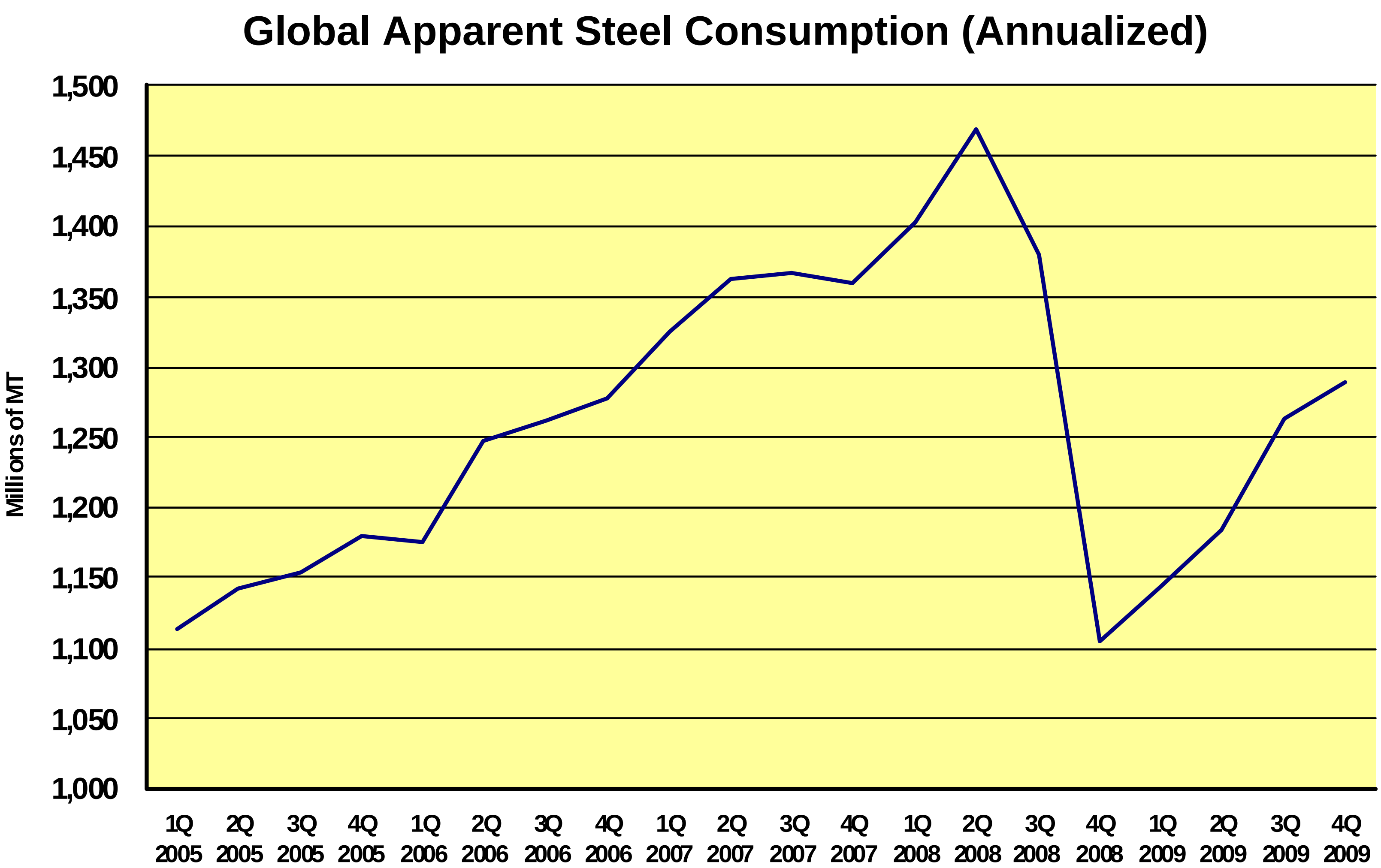


Even if apparent steel use in the NAFTA region recovers to 107 million MT by 2011, as currently projected by the World Steel Association, it would still only match the **1993** consumption level – and be **only 76%** of the level in 2007.

Source: Worldsteel

III. Major NAFTA Industry Concerns Going Forward

Global Steel Consumption Has Only Begun to Recover

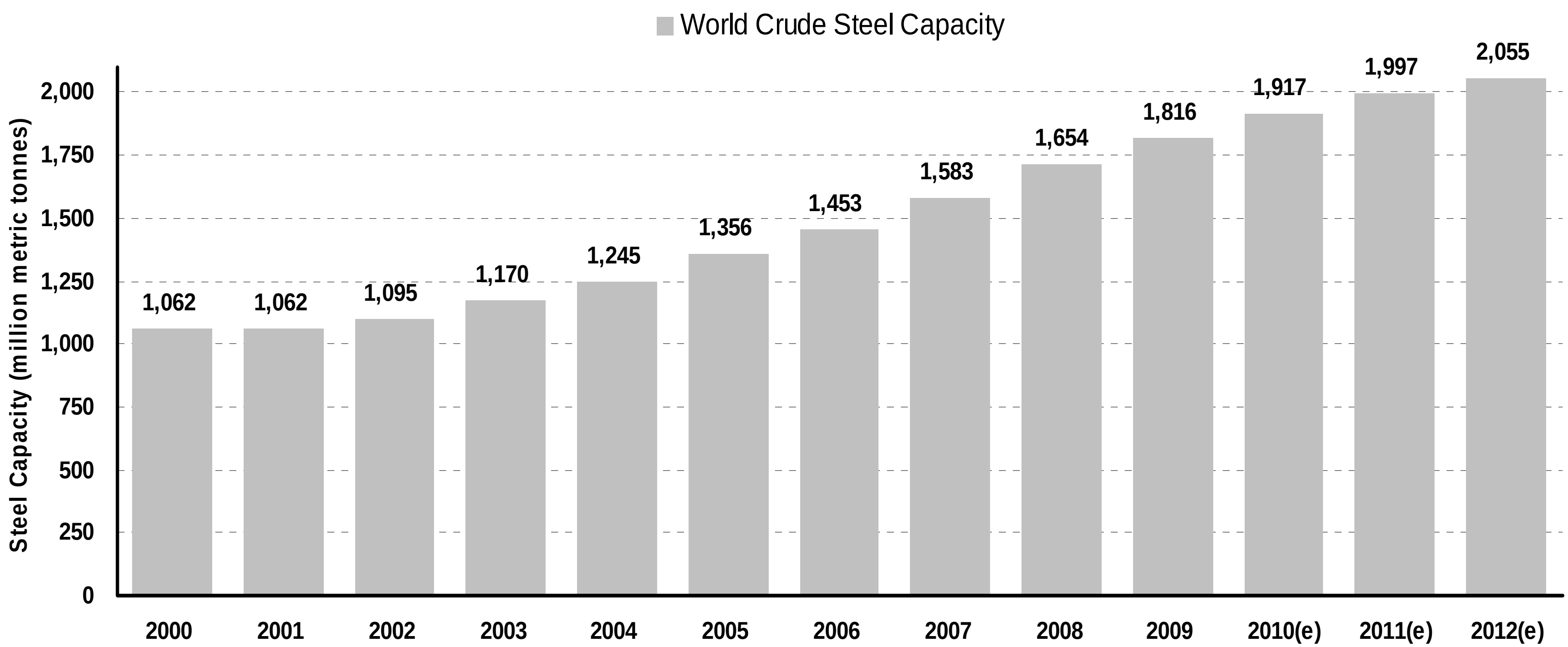


Source: World Steel Dynamics

… While Global Steel Capacity Continues to Increase

World Steel Capacity Continues to Grow, Even Though the Economic Crisis Delayed Some Projects Scheduled for 2009-12

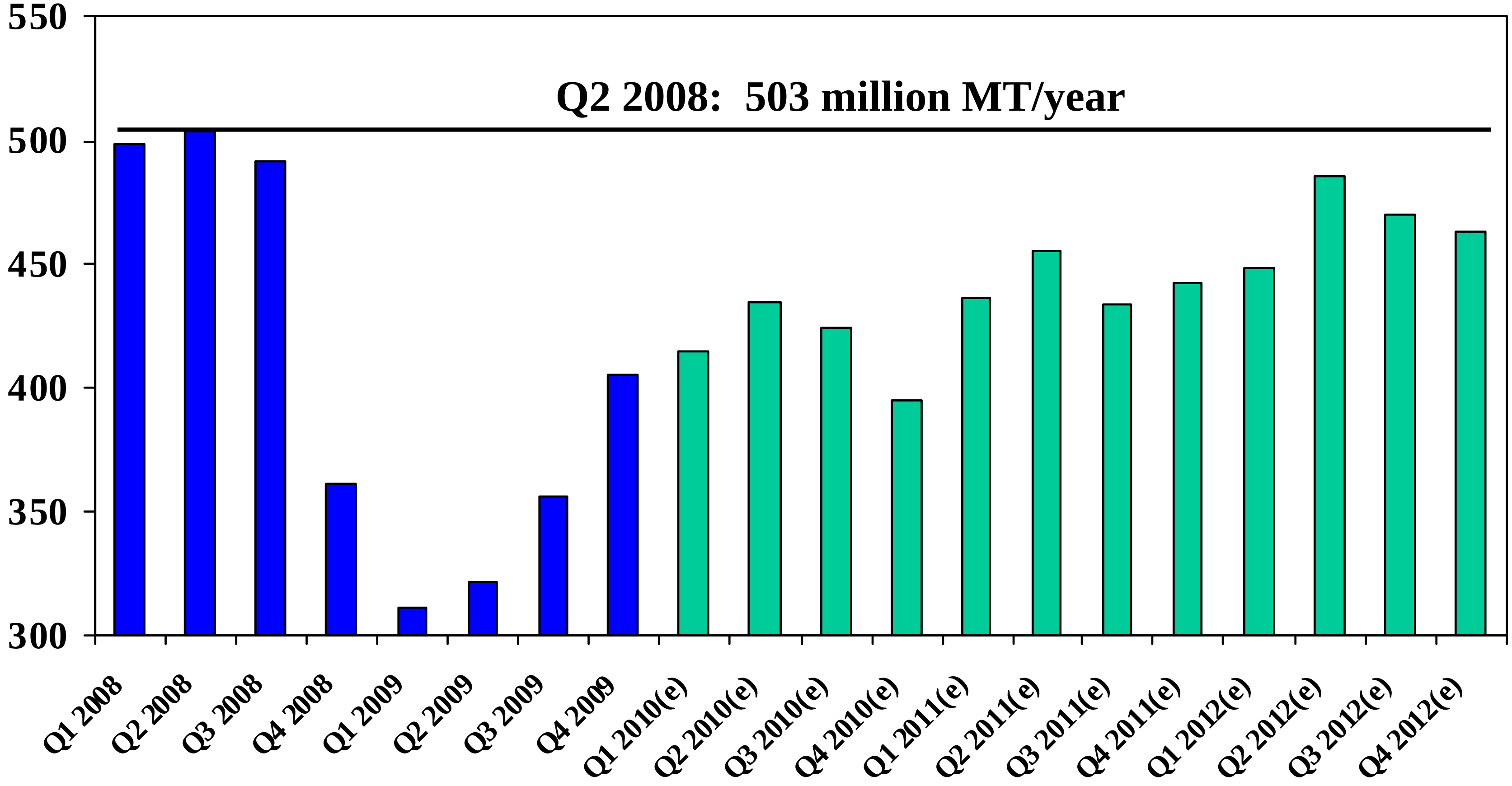
World Crude Steel Capacity 2000-2012



Source: Worldsteel

In Advanced Economies, Apparent Steel Consumption Is Not Forecast to Return to Q2 2008 Levels *at Least Through 2012*

Advanced Countries' Apparent Steel Consumption on an Annualized Basis (in millions of MT)



Source: World Steel Dynamics, "Inside Track # 104" (March 29, 2010) at 12.

Meanwhile, Foreign Government Subsidies to Steel and Steel-Related Industries Remain a Particular Concern …

- Foreign government subsidies are a major cause of overcapacity in the global steel industry and steel-related industries

- Subsidies to steel and steel-related industries that (1) support inefficient and excess capacity and/or (2) distort trade are continuing, and remain a particular concern

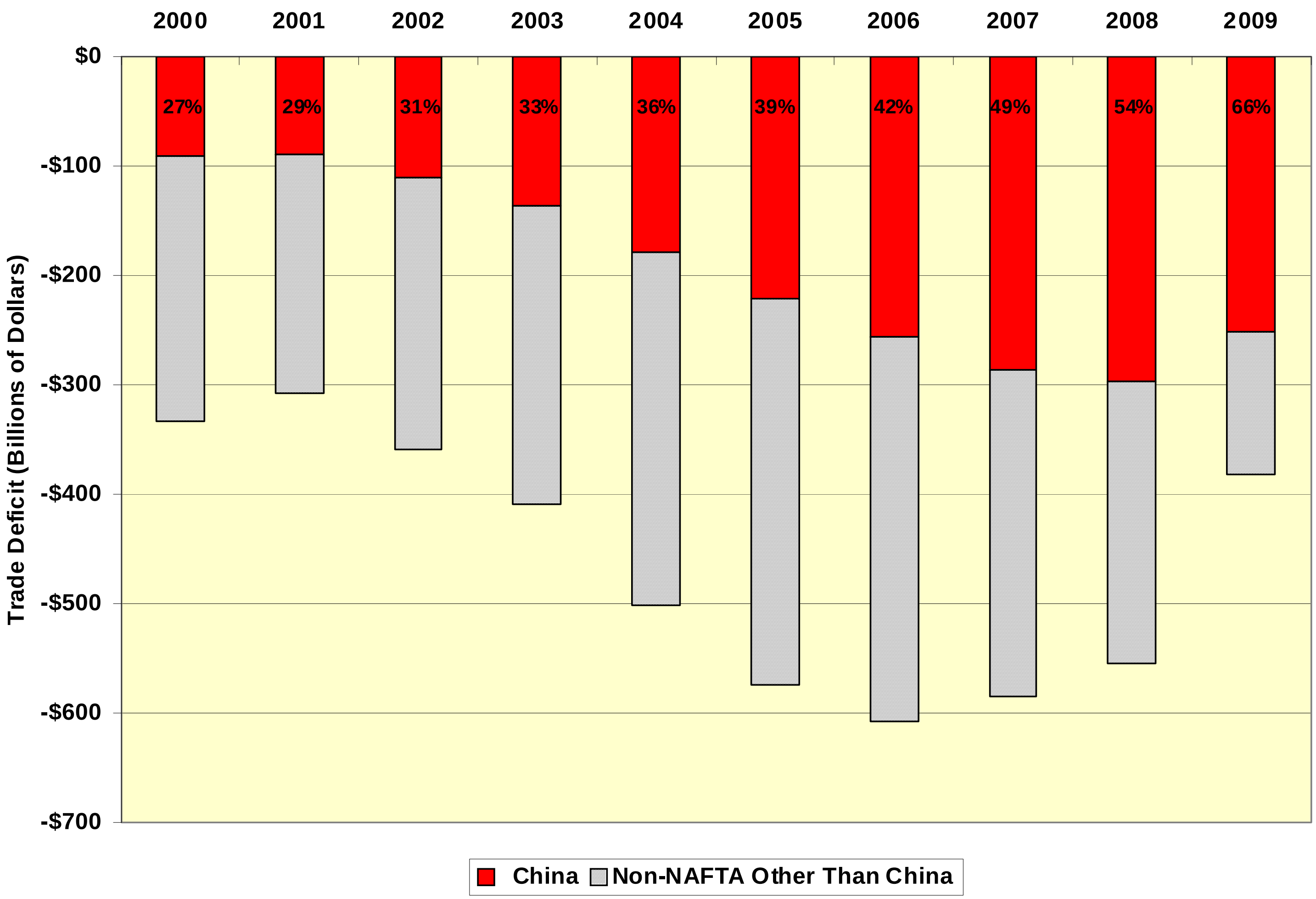
- Examples include:
  - Fundamental currency misalignment/undervalued currencies
  - Preferential financing to add new capacity
  - Loan forgiveness/equity infusions to prop up obsolete capacity

… And Raw Material Export Restrictions are Continuing to Disadvantage NAFTA Steel and Other Manufacturers

- Many countries continue to impose a variety of restrictions on exports of vital raw materials
  - Export prohibitions
  - Export duties
  - Export quotas
  - Other measures

- Trade-distorting restrictions on exports of raw materials
  - Give domestic producers in the exporting country an unfair advantage
  - Increase worldwide costs of production
  - Place a heavy burden on steel industries in developing countries that do not have substantial iron ore reserves or steel scrap supplies

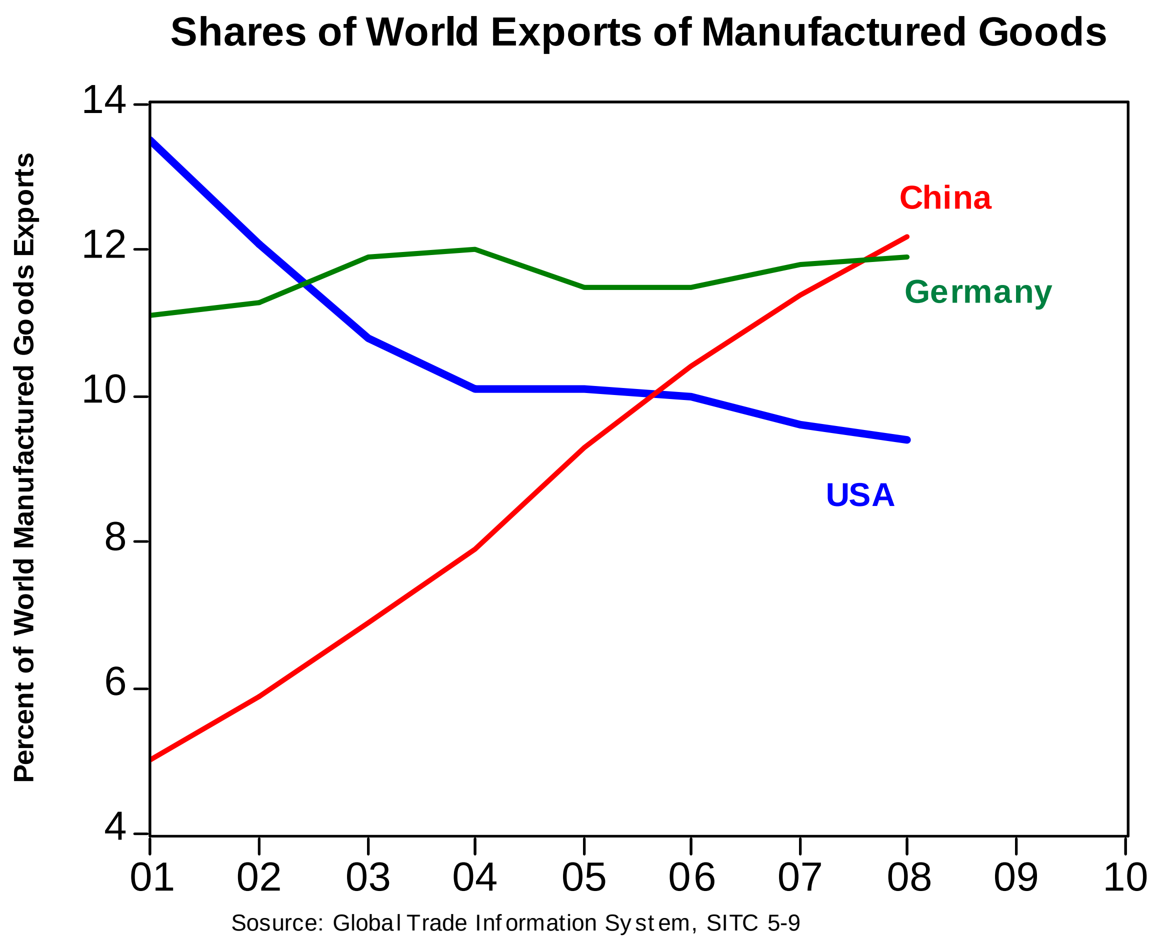
U.S. Manufacturing Trade Balance with Non-NAFTA Countries



- Manufacturing trade balance trends parallel **indirect steel trade** balance trends.
- NAFTA steel strongly supports a **rebalancing** of global structural imbalances (with a significant increase in NAFTA **exports** of manufactured goods).
- These huge, unsustainable trade imbalances have caused **millions of manufacturing job losses** in the North America, and contributed to the recent world economic crisis.

Source: U.S. Census Bureau.

The NAFTA Share of World Exports of Manufactured Goods Has Declined Sharply



Data for 2009 and 2010 are not available yet, but preliminary indications are that the negative trend for NAFTA that we experienced in 2001-2008 is continuing.

Major NAFTA Industry Concerns Going Forward

- Overall steel demand conditions have improved somewhat from 2009, but demand remains far below pre-crisis levels, and some experts believe it could remain poor for years to come
- Global steel consumption is growing again, but so is world excess capacity
- NAFTA producers are in no position to deal with significant volumes of dumped and subsidized imports
- Trade-distorting government market interventions (to maintain undervalued currencies, subsidize steel and steel-related capacity and limit vital raw material exports) are continuing
- Manufacturing is critical to the NAFTA steel industry and our economies – and manufacturing in North America requires urgent policy attention.

Key Policy Messages for Steel Committee

With the recovery still fragile throughout the developed world, the NAFTA steel industry has the following key policy messages for the proposed 2011-12 Steel Committee budget and work program:

- We remain especially concerned about subsidies that contribute to excess and inefficient capacity and/or distort trade, and believe the issue of government supports for steel should stay a part of any future Steel Committee work program.

- Two other trade-distorting practices that we would like to see remain on the Committee agenda are (1) enhanced work with the OECD Trade Committee on approaches to trade restrictions on raw materials and (2) differential or discriminatory fiscal policies.

- We believe it could be useful for the Committee to continue to analyze steel and technology and the steel trade dimensions of steel and the environment.

- Because of their importance to the global economy and the world steel industry, we would also support putting additional focus on analysis of developments in the "BRIC" countries.