

News release

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India set to become global steel powerhouse

Survival of fittest for global steelmakers

Sydney, Wednesday 4 May 2011 — India is set to become the world's steel powerhouse, with investment in the latest and most efficient technology forecast to surge.

The rise of India and the issues, challenges and opportunities for the global steel sector are examined in a new Ernst & Young report, *Global steel – 2010 trends, 2011 outlook*, released today.

Ernst & Young's Global Mining & Metals Leader, Mike Elliott, says with India's strong economy driving a 12% rise in domestic steel demand in the next two years alone, India is poised to become a dominant player in the global steel sector. Although capacity has increased 8.7% between 2005 and 2010, this was outstripped by growth in domestic consumption of 11.1% over the same period.

"This unprecedented growth has attracted many global steel players, with a number establishing mega greenfield projects and others entering strategic partnerships or joint ventures with Indian steelmakers," says Elliott.

"There is a stampede of steelmakers to India and all the leading global steelmakers have an India strategy to tap into the growth."

However Elliott says the increased global steelmaking capacity from the investment boom in India will combine with higher raw material costs to squeeze the margins of steelmakers around the world.

"The next few years will be survival of the fittest for steel producers," he says.

“The key driving factor for the profitability of all steel players will ultimately depend on more tightly managed operating expenses and capital expenditure.”

Elliott says steelmakers have had a challenging couple of years in the wake of the global financial crisis, with the uneven recovery in demand compounded by increasing raw material costs.

“The fluctuations in demand and raw material price volatility are the two biggest challenges facing steelmakers.”

Recovery in steel demand in developed markets remains fragile, but the strong growth in steel demand in emerging markets will continue, fuelled by growing demand from infrastructure, construction and automotive end-users.

Elliott says while this recovery in demand has helped boost steelmaking capacity utilization levels from the financial crisis-induced 2009 lows of 65%, they still remain only at about 80%.

New, more efficient steelmaking plants coming online, primarily in India, will therefore continue to pressure margins.

Scarcity of coking coal, raw material price volatility and increasing energy costs are adding to this margin squeeze.

“We will continue to see more of the measures taken by steelmakers in 2010 to combat the squeeze on margins,” says Elliott.

These measures include:

- Acquisitions of coal assets and alliances with coal producers to secure coking coal in the face of escalating prices. During 2010 there were 20 deals by steelmakers targeting either iron ore or coking coal.
- Restructuring businesses to ensure efficiencies and reduce costs, including strategic joint ventures to gain access to emerging markets.

- Improving energy efficiency to combat increasing energy costs.
- Improving product mix and increasing focus on downstream applications to deliver higher value products and greater margins, diversify risk and increase margins.

- Ends -

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