

FA 04

Growth stimuli are mainly received from the energy sector

International steel tube industry still heading for expansion

By 2010 the global production of steel tubes had already recovered from the dramatic downturn of 2009. This positive development in demand continued into 2011, so that, on a global scale, the industry recorded growth figures of around 11 per cent, rising to about 141m metric tonnes and achieving an all-time production record.

This growth also included the German steel tube industry, with a production surplus of around 7 per cent in 2011. According to the steel tube industry association Wirtschaftsvereinigung Stahlrohre in Düsseldorf, production rose in both seamless and welded tubes. The association rates the level of capacity utilisation as “generally satisfactory”. The first half of the year, in particular, occasionally even displayed a record high in incoming order volumes, while the second half showed a slight downturn in order volumes.

Due to the high level of demand, particularly in the automotive industry and in mechanical engineering, manufacturers of precision steel tubes achieved an above-average rise in production. According to the association, the consistently high demand in the energy sector was of special benefit to seamless tube manufacturers. In large-diameter tubes demand was fuelled by a worldwide need for gas pipes and structural tubing for wind power stations. The market for welded line pipes up to 406.4 mm in outer diameter, on the other hand, was characterised by a downturn in new orders and by increasing competitive pressure due to worldwide overcapacities.

This means that more than half of all steel tubes, both in Germany and worldwide, are produced for the energy sector (oil/gas supply and power plant construction). The other, smaller customer groups are mainly mechanical engineering, the automotive industry, the chemical industry and the petrochemical industry.

According to Salzgitter AG, the essential parameters for the steel tube and steel market in 2011 were set by a very strong domestic economy in Germany, the European debt crisis and expansion into China, Russia, India and Brazil – regions that are becoming increasingly important for the global economy. The USA continues to suffer from the consequences of the crisis in the financial market and is endeavouring to make its energy supply less dependent on imports. In 2011 economic developments were largely slowed down by rising raw material and energy prices and by tighter monetary policies.

A record high for ore and coal prices

Procurement markets for production input material was particularly impacted by China's hunger for steel, as its figures accounted for nearly half of crude steel production throughout the world. According to Salzgitter, this led to an increasing demand for iron ore, coking coal, blast furnace coke and energy and also, as a result, a significant upturn in numerous stock exchange quotations. During the second quarter of 2011 this caused a record high in iron ore and coal prices. Subsequently, however, growing doubts about the stability of the global economy – especially during the last quarter – put considerable pressure on raw material prices.

Major price fluctuations throughout the year were also recorded for metals and ferro-alloys. After an increase during the first six months, prices for materials listed on the stock exchange – such as zinc,

nickel, copper and aluminium – went down again considerably during the second half of the year. Ocean freight rates, too, were subject to continuous fluctuation during 2011, but ended up being twice as high towards the end of the year. Moreover, the procurement market in 2011 was marked by fluctuating prices for liquid reducing agents and for materials and supplies as well as by inconsistent scrap metal prices and rising oil and gas prices. All these developments caused substantial fluctuations in the prices of semi-finished products.

Like in previous years, the increase in global steel tube production was largely due to a disproportionate rise (up 16 per cent) in the production of such tubes in China. In fact, China continued to expand its global production share to 48 per cent. In the other global regions the production total rose by 7 per cent to over 74m metric tonnes, so that it stayed about 7 per cent below the record high of 2008. In 2011 EU manufacturers recorded an overall increase of 11 per cent over the previous year, thus reaching a volume of 15m metric tonnes.

Strong growth in all raw materials

The segment with the greatest worldwide expansion in production was welded tubes up to 406 mm in outer diameter: this segment grew by approx. 14 per cent to 74m metric tonnes. The Salzgitter experts believe that this development was above all caused by strong and sustained domestic demand in China and by a continually high demand in the North American oil and gas sector. Sales increases were also recorded by other types of tubes. Globally, the production of seamless steel tubes went up 7 per cent compared with 2010, reaching about 43m metric tonnes, while large-diameter tubes increased by nearly 9 per cent to 23m metric tonnes.

A stabilisation of the steel tube market was also noticed by the Austrian company Benteler International AG. According to Benteler,

steel tube production in Germany rose 17 per cent over the previous year in seamless precision tubes, i.e. in the segment that is relevant to the company. This high demand was apparently due to increasing oil and gas exploration activities and also reduced stocks of OCTG tubes. Moreover, rising energy requirements in Asia have led to new power station projects, while the emphasis in Europe and America was on major repairs to existing power plants. The tube business also profited from strong exports effected by Germany's mechanical engineering industry and positive developments in the country's automotive industry.

Furthermore, Benteler maintains that there was a slight increase in demand in the steel tube trade in 2011. Compared with the previous year, the global consumption of steel tubes rose above all in three sales markets: mechanical engineering, hydraulic cylinders and automotive supplies. The development was less encouraging in construction and energy, sectors which continued to suffer under a reluctance to invest throughout Europe. The markets which Benteler sees as growth drivers on a global scale are China and India, as they are likely to step up their steel tube consumption even further.

Growth trend slowed down in early 2012

The beginning of 2012 was at first very promising for the global economy, as world trade increased substantially again after its weakness in the second half of 2011. On the political arena, however, financial and economic developments in the first few months of 2012 were also marked by the European debt crisis. According to Salzgitter, this meant – and indeed still means – that developments varied considerably between the different Eurozone countries, ranging from growth in Germany and several other countries to recessionary developments, mainly in the Mediterranean.

Whereas there are cautiously optimistic expectations for the global economy, growth prospects for the Eurozone are therefore seen as no more than mixed. In its spring forecast, the European Commission predicted that eight of the 17 Eurozone countries would experience a reduction in their gross domestic products. The unresolved European debt crisis continues to be the greatest risk to the global economy, along with a considerable rise in oil prices and a range of political conflicts.

During the first quarter of 2012 Salzgitter recorded a dual development in its tube division. On the one hand, its precision tube business remained robust and there was a rise in shipments and sales in the segments of HFI-welded tubes and seamless stainless steel tubes. On the other hand, the company also reported insufficient capacity utilisation in large-diameter tubes. However, this gap was closed again towards the end of the first quarter, when Benteler started to produce over 410,000 metric tonnes of large-diameter tubes for an Australian gas pipeline. Under the Ichthys LNG Project liquid natural gas is to be taken from the Ichthys Field to Darwin via an 889 km offshore pipeline.

In all, after a strong increase in the previous year, global demand for steel tubes tapered off somewhat in the first three months of 2012. According to Salzgitter AG, there was a downturn of orders from the automotive sector as well as from mechanical engineering and construction, with no substantial stimuli coming from any of these industries. One product segment that was particularly impacted was precision tubes. The energy sector, by contrast, recorded an increase in demand.

A question mark over future economic developments

Economists maintain that prospects for the global economy have actually been getting worse in recent months. One element that is playing a major role is the hitherto unresolved European debt crisis. At the same time, compared with last year, there has been a downturn in dynamism among emerging markets. Nevertheless, Benteler believes that prospects for the steel tube industry are not bad, as growth can be expected for 2012 on account of positive economic developments in so many business segments.

One industry, in particular, that will play a major role for the future will be the dynamic energy sector. In OCTG (Oil Country Tubular Goods), for instance, Benteler believes that developments in the North American market will be especially relevant. Moreover, in the long run, oil and gas will apparently have a major share in the energy supply. As energy prices are likely to continue their upward trend, conditions are favourable for further explorations.

In Europe and North America, partly due to the focus on carbon emissions, fossil fuel power stations can only be realised to a limited extent, while Asia is likely to experience a high level of construction activities for power plants. Also, the hitherto positive solar business in Europe is expected to be supplemented by rising demand from the USA. Likewise, after the recovery in 2011, the Benteler Group is envisaging continued growth in agricultural and construction machinery, especially in threshold countries wanting to increase their machinery.

As part of its growth strategy for its steel and tube division, Benteler has investigated which markets will be of relevance to itself and its products. The results show that there will be an increase in sales and in the market potential of products created for the US exploration

industry. Benteler therefore decided to set up a further facility in the USA. Under its current plans, it wants to build a steel mill, a hot-rolled tube facility and several finishing lines for the production of seamless tubes.

Forecast: cautiously optimistic

The steel tube industry association Wirtschaftsvereinigung Stahrohrre also believes that developments in 2012 will very much depend on success in mastering the various government financial crises in Europe and the USA. As long as, according to the association, the debt crisis can be prevented from impacting the real economy again, German industry, in particular, should benefit from an increased stabilisation of the global economy.

Forecasts for German steel tube manufacturers are therefore cautiously optimistic. If crude oil prices continue at the currently high worldwide level, they will lead to sustained activities in exploration and production drilling, so that seamless tube manufacturers can continue to expect good capacity utilisation. Eventually, slightly later, this should also have a positive impact on line pipe manufacturers. Another area that may be of benefit to the steel tube industry is the recent range of new applications for steel tubes, e.g. the extraction of so-called unconventional gases and the development of offshore wind farms. While the association is expecting to see an unabated demand from the automotive sector and mechanical engineering, it is not anticipating any major boost in demand from the European construction industry.

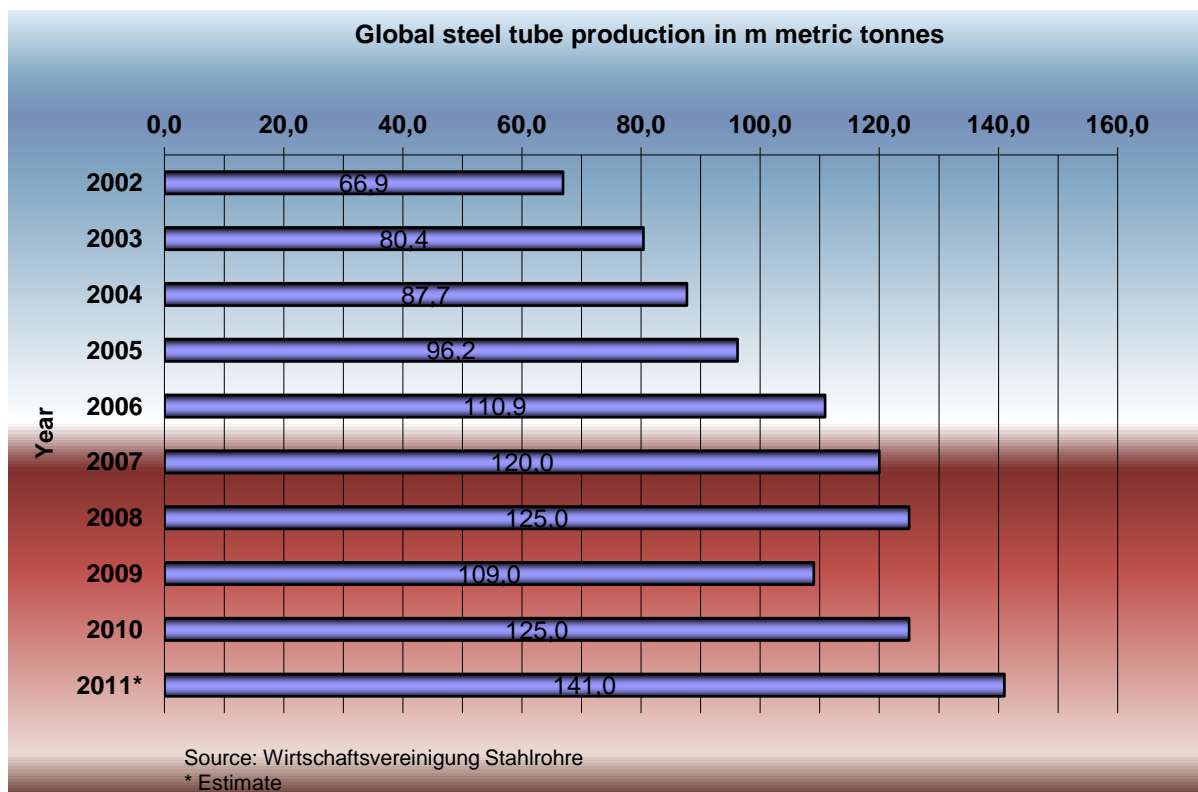


Illustration: Development of global steel tube production from 2002 to 2011.

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