

Current Situation of Steel Supply and Demand in Japan

June 8, 2009

The Japan Iron and Steel Federation

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1. The Current Japanese Economy

Macroeconomic Overview — Biggest GDP drop in the post war era —

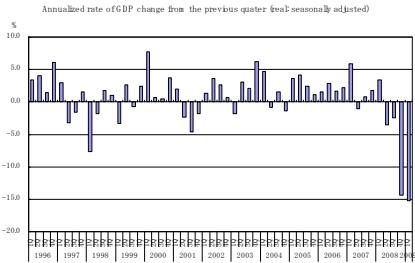


Table1. Quarterly real GDP growth rates by final demand category

Final demand category	2008				2009	
	1Q	2Q	3Q	4Q	1Q	Contribution to change in GDP
Real GDP	0.8	-0.9	-0.6	-3.8	-4.0	-4.0
Private Consumption	1.4	-1.0	0.1	-0.8	-1.1	-0.6
Private Residential Investment	4.8	-2.0	3.1	5.5	-5.4	-0.2
Private Non-Res. Investment	1.7	-2.9	-4.4	-6.7	-10.4	-1.6
Public Investment	-5.1	-0.8	1.0	-0.1	0.0	0.0
Exports	2.4	-0.8	1.0	-14.7	-26.0	-4.2
Imports	2.4	-4.2	1.5	3.1	-15.0	2.7
GDP Deflator	-1.3	-1.5	-1.5	0.7	1.1	

Source: Cabinet Office
Note: The growth rates in the table are shown changes from the previous quarter in real terms. The figures for the third quarter of 2008 are basis of the first preliminary estimates.

- In 1Q/2009 the effective GDP growth rate dropped at annualized rate of 15.2%. This was the largest downturn in Japan's postwar period and the first time that Japan's GDP has contracted in four consecutive quarters.
- Falling domestic demand is the primary cause. There were sharp declines in consumer spending, which accounts for about 60% of GDP, and private-sector capital expenditures, which accounts for almost 20%. The largest postwar drop in Japan's exports occurred at the same time. The result is a simultaneous collapse in both domestic and external demand.
- Progress in reducing inventories and production levels is producing signs that the downturn may be ending.

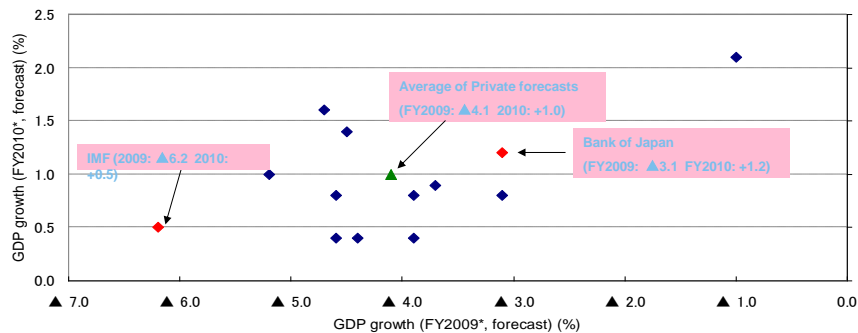
FY2009 Additional Economic Measures of Japanese Government (April 10 decision by gov't and LDP)

	(Estimates: Trillion yen)	
	Expenditure	Total package
I. Emergency measures - Prevent economic collapse	4.9	44.4
1. Employment initiatives	1.9	2.5
2. Financial initiatives	3.0	41.8
3. Moving up projects (unprecedented 80% of public-works projects to start ahead of schedule)		
II. Growth strategy - Investments in the future	6.2	8.8
1. Low carbon revolution (environmental initiatives)	1.6	2.2
2. Public health and child-rearing	2.0	2.8
3. Infrastructure for the 21st century	2.6	3.8
III. Confidence and vitality	4.3	5.0
1. Regional revitalization, others	0.2	0.4
2. Public safety and peace of mind	1.7	2.2
3. Financial and other support for local governments	2.4	2.4
IV. Tax revisions	0.1	0.1
Total	15.4	56.8

- The stimulus package is expected to add about 2% to effective GDP growth in fiscal 2009, producing demand that creates 400,000 to 500,000 jobs.
- Measures that may generate demand for steel include a housing loan tax cut, airport and expressway construction, purchase assistance for "green" automobile and energy-efficient appliances.

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Forecast for GDP Growth in Japan

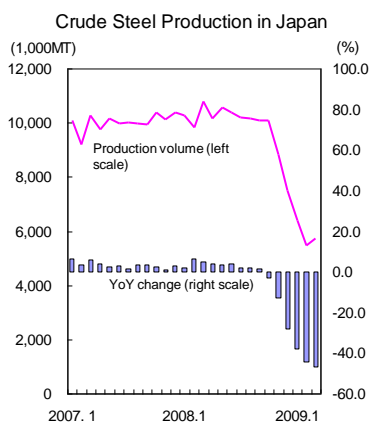


Many private-sector research institutes predict a GDP decline of 4% to 5% in FY2009 and growth of about 1% in FY2010. Some institutes are raising forecasts based on Japan's progress in inventory reductions, the government's massive stimulus package, the bottoming out of the Chinese economy's downturn and other factors.

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2. Steel Supply and Demand

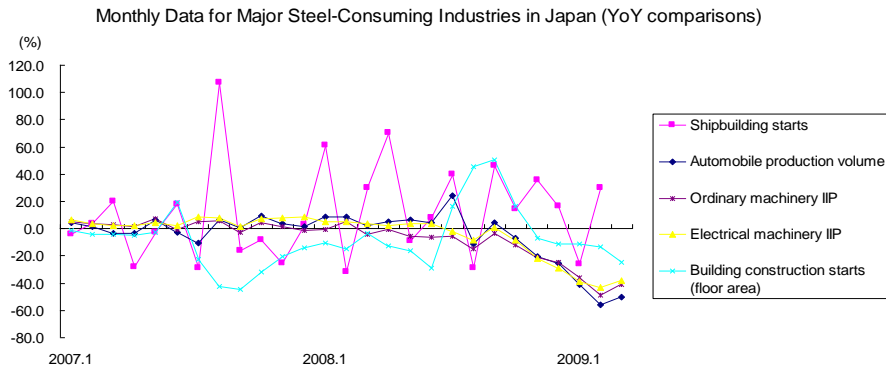
Steel Production in Japan



Remarks concerning steel production

- Compared with one year earlier, Japan's crude steel production was down 14.9% in 4Q/2008 and 49.2% in 1Q/2009 and the 2Q/2009 estimate is a decline of 42.6%.
- We believe the sharp drop in steel production was due to the simultaneous occurrence of the following negative events.
 - 1) Falling domestic demand in Japan
 - Drop in level of activity in major industries
 - Steel users reduced inventories of finished products, work in process and steel
 - Reduction in steel inventories held for distribution
 - 2) Falling overseas demand
 - Drop in level of activity in steel-consuming industries in Asia, a major source of demand for steel exported from Japan
 - Reduction in steel inventories in the international steel market
 - Affection of trade restrictive measures by destination country
 - 3) Reduction in steel inventories at steel producers

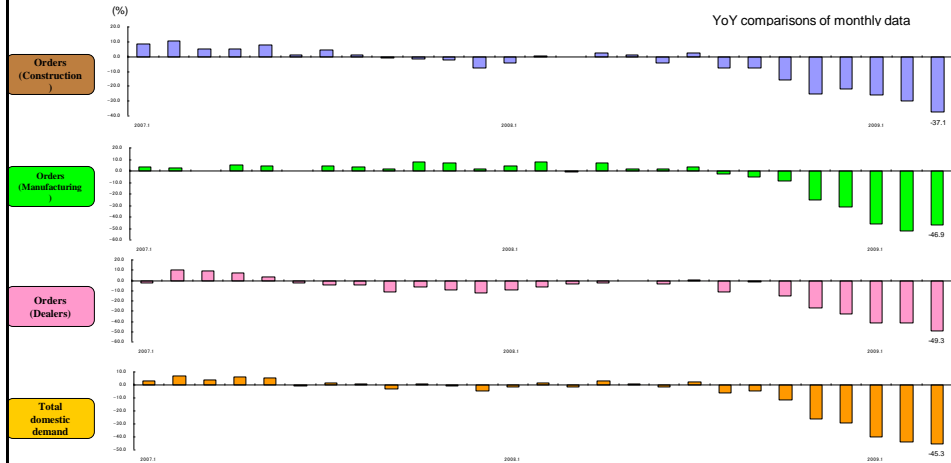
Major Steel-Consuming Industries in Japan



- Activity in the automobile, ordinary machinery, electrical machinery, construction and all steel-consuming industries except shipbuilding started falling in the second half of 2008 because of the global recession.
- Since shipbuilding sector is also expected to weaken, demand in Japan will probably continue to remain below the levels of one year earlier.

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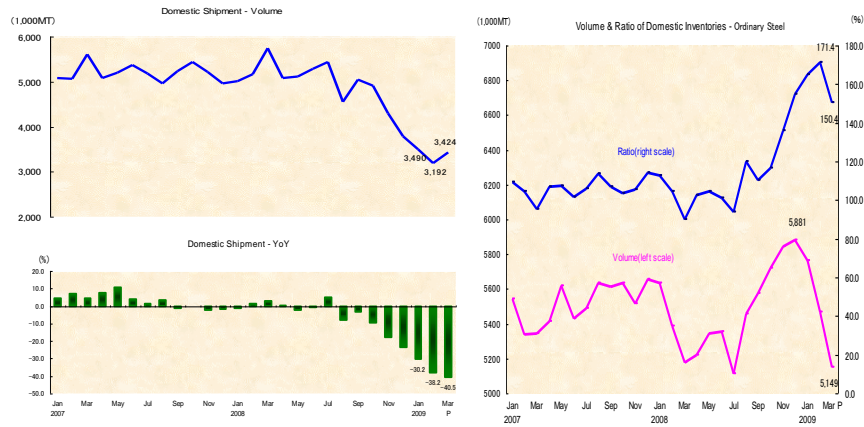
Orders for Ordinary Steel by Application (Domestic Demand)



- Orders for ordinary steel started falling rapidly in the second half of 2008. The drop in the manufacturing sector has been particularly steep since the beginning of 2009. Compared with one year earlier, first quarter orders plunged 66.4% in the automotive sector, 72.2% in the industrial machinery sector and 47.8% in the electrical machinery sector. All these declines exceeded downturns in the corresponding industry activity indicators.

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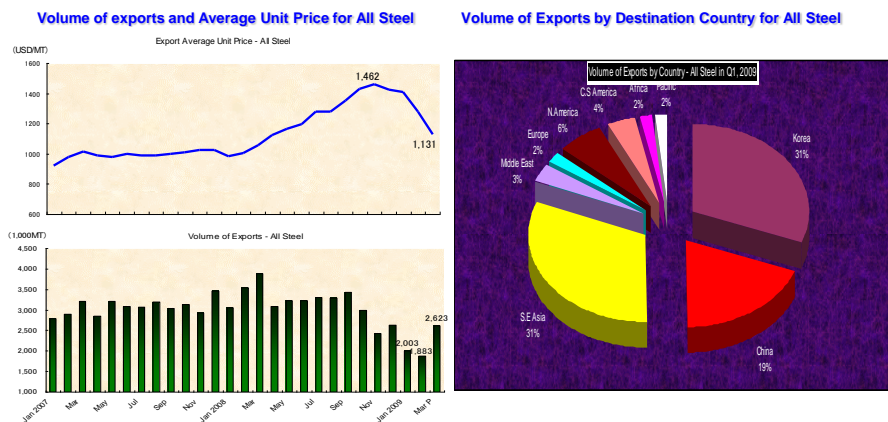
Ordinary Steel Shipments and Inventories in Japan



- Domestic shipments of ordinary steel started declining in October 2008. By March 2009, the year-on-year downturn had increased to 40.5%. Inventories in Japan have been falling since peaking at 5.88 million tons in December 2008, further contributing to the downturn in steel production.

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Steel Exports



- Total steel exports started declining in October 2008 and were 1.88 million tons in February 2009, only 51.7% of the volume at the March 2008 peak. The average unit price has declined steadily and is currently US\$1,131.
- In Southeast Asia, a major source of demand, there are big declines in steel exports to Korea, China and ASEAN region.

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Outlook for the Steel Industry in Japan

- ❖ Inventory reductions at steel producers and in the supply chain, a major reason for the drop in steel production volumes, have been largely completed. As a result, steel production in Japan is expected to stop falling in 2Q/2009 and start recovering. However, activity at domestic steel-consuming industries and overseas demand is unlikely to return to pre-crisis levels for a certain period of time. Any recovery will probably be limited for the time being.
- ❖ Changes in the following statistic are of particular importance
 - Real domestic demand, particularly indirect steel exports
 - Steel production and exports in China
 - Situation of trade protection measures involving the steel trade

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3. Recent Actions that may Harm the Global Steel Trade

AD/CVD Proceedings (Imposition of duty or Investigations started since 2008)

Petition Country	Product	Date of imposition of AD/CVD duty (* Initiation)	Country
USA	Circular Welded Carbon Quality Steel	2008.7.22	China
	Light-Walled Rectangular Pipe and Tube	2008.8.5	China, South Korea, Turkey, Mexico
	Circular Welded Austenitic Stainless Pressure Pipe	2009.3	China
	Certain Circular Welded Carbon Quality Steel Line Pipe	*2008.4.23	China
	Oil Country Tubular Goods	*2009.4.28	China
EU	Certain Welded Tubes and Pipes of Iron or Non-Alloy Steel	2008.12.19	China, Russia, Belarus
	Wire Rod	*2008.5.8	China, Moldova, Turkey
	Certain Seamless Pipes and tuTubes	*2008.7.9	China
	Welded Tubes, Pipes and Hollow Profiles of Square or Rectangular Cross-Section	*2008.11.13	Belarus, Ukraine, Turkey
Canada	Certain Seamless Carbon or Alloy Steel Oil and Gas Well Casing	2008.3.10	China
	Certain carbon steel welded pipe	2008.8.20	China
China	Grain Oriented Flat-rolled Electrical Steel	*2009.6.1	USA, Russia
Indonesia	Hot Rolled Coil	2008.2.28	China, Taiwan, Thailand, India, Russia
	Hot Rolled Plate	*2008.11.5	China, Taiwan, Malaysia
India	Cold Rolled Flat Products of Stainless	*2008.11.25	Japan, China, Korea, Taiwan, Thailand, EU, USA, South
	Hot Rolled Steel Products	*2008.11.28	Japan, China, South Korea, Thailand, Indonesia, Malaysia, Philippine, Iran, Saudi Arabia, Kazakhstan, Turkey, Russia, Ukraine, Romania, South Africa
Russia	Color Plate	*2008.3.18	China, South Korea, Belgium, Finland, Kazakhstan
	Stainless Steel Plate	*2009.3.27	China, South Korea, Taiwan, Brazil, South Africa
Australia	Certain Hollow Structural Sections	*2008.12.18	China, Malaysia

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Increase of Import Duty

Country	Date	Outline of Measure
India	Nov.18, 2008	Higher import duties for pig iron, semi-finished products, flat-rolled products, and bars/wires/sections.
	Jan.2, 2009	Higher import duties for TMT bars, structural steel sections, galvanized sheets and ferroalloys (Termination of duty-free status in April 2008).
Russia	Feb.14, 2009	Increased from 5 points to a maximum of 15 points the duties for some bars and sections, hot-rolled stainless steel sheet, cold-rolled sheet, seamless pipes and tubes, large-diameter line pipe, and other products.
Vietnam	Apr.1, 2009	Vietnam Ministry of Finance decided to raise import duties from 5% to 8% for billets, 12% to 15% for long products for construction, 7% to 8% for CR, and 12% to 13% for coated sheet.
	Apr.20, 2009	In response to a Vietnam Steel Association request, Vietnam Ministry of Finance raised the import duty from 0% to 10% for long products with boron added.

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Mandatory Standards and Conformity Assessment Procedure

Country	Date	Outline of Measure
Philippine	Jun.19, 2008	Certification under Philippine standards is required for galvanized sheet and bars/wires/sections.
Malaysia	Nov.15, 2008	For 57 bar/wire/section products (HS code), started mandatory sampling inspections by SIRIM (Standards and Industrial Research Institute of Malaysia) before goods are imported to confirm compliance with Malaysian or international standards.
India	Sep.12, 2008	Required compliance with Indian standards for six categories of steel products (wires, bars, etc.)
	Feb.12, 2009	Required compliance with Indian standards for 11 categories of steel products (semi-finished products, heavy plates, galvanized sheet, tin plate, electrical steel sheet, etc.)
Thailand	1993~2009	Required TIS compliance for bars, sections, wires, hot-rolled sheets and cold-rolled sheets (total of 19 product categories).
	May.1, 2009	Strict enforcement of examinations for TIS certification and maintenance of certification (to receive import permit) Despite lack of clarity for details, for examinations to receive or maintain certification, required submission of more documents, audits or factories and/or importers (once each year), and sampling inspections for each import shipment.
Indonesia	Jan.1, 2009	Required Standar Nasional Indonesia (SNI) certification for galvanized sheet used for construction
	May.6, 2009 (HRC) Jul.6, 2009 (Aluminum-zinc alloy coated steel sheets)	Required SNI certification for hot-rolled products (including heavy plates) and aluminum-zinc alloy coated steel sheets

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Safeguard Measures

Country	Date	Outline of Measure
Russia	Dec.20, 2006	Added 8% special tariff to large-diameter seamless pipes with external diameter of more than 508mm and other products
	May 14, 2009	Officially started safeguard inspections for secondary steel products (HS 7318).
Philippine	Aug.11, 2008	Officially started safeguard examinations for angle steel and other steel sections
India	Apr.9, 2009	Officially started safeguard inspections for hot-rolled sheets (up to thickness of 20mm and width of 2000mm, including HS 7208) Applicants ask for a two-year tariff hike. In addition, applicants declare an emergency and ask for the immediate imposition of a provisional safeguard tariff.

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Other Import Restrictive Measures

Country	Measure	Date	Outline of Measure
India	Import licensing system	Nov.21, 2008	Started licensing system for import of hot-rolled coil (changed import category from free to restricted)
USA	Buy American	Feb.17, 2009	Buy American clause for steel, etc. in the U.S. Recovery and Reinvestment Act Requires use of U.S.-made products for steel and general industrial products in public-works projects conducted under this act. However this does not apply when (1) the requirement is harmful to the public good, (2) a particular product is not made in the U.S. in sufficient volumes or with adequate quality, or (3) use of U.S.-made products would raise the total cost of the project by more than 25%. In addition, Buy American must be applied in a manner that complies with U.S. obligations under international agreements.
Indonesia	Import restrictions	Feb.18, 2009	Mandates registration of importers and inspections before shipments. Importers must undergo a registration inspection requiring an application to the surveyor that includes the volume of goods to be used over the next year, applications, HS codes and ports where the goods are to be unloaded. In addition, pre-loading inspections are required at the port of departure and import reports must be submitted every three months.

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- ❖ The global economic recession has prompted many countries to enact measures to restrict imports.
- ❖ These actions alone may not necessarily be WTO violations. But the enforcement of these measures often lacks predictability and transparency. The result is an effective trade barriers.
- ❖ We ask all countries of the world to comply with the G20 statement in March 2009 that includes a pledge to maintain an open environment for trade and investment. We firmly believe that preserving this environment is vital to the soundness of the steel trade and sustaining global economic growth.

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