



Dramatic Changes and Volatility in Steel Sourcing

Increasing volatility in steel supply chain is having dramatic implications on end market segments, including the steel drum industry. Multiple key developments related to demand increases, historical capacity reductions in last 24 months, and fundamental changes in major raw materials supply agreements for iron ore and coking coal are all changing how steel mills do business.

Key developments include:

- Raw material prices are expected to double this year from 2009
- Global steel demand, which is expected to increase by 10% in 2010, will sustain the price increase
- Steel mill arrangements with customers are mirroring moves made by their own suppliers of raw materials - no longer supplying at annual or multi-year deals, but requiring customers to adapt to new scenario of short term / spot pricing
- Scrap steel pricing increases impacting raw drum availability, increasing costs for reconditioned products
- "These price increases have to be passed on to the customers," Lakshmi Mittal

Myers / CMS has relationships with multiple mills developed over the last half century and are confident in our sourcing strategies despite increasing capacity pressures from the mills. However, our pricing for both new and reconditioned steel drums will now be linked to monthly changes in the steel sourcing market. We look forward to ensuring continuity of supply during a difficult sourcing environment.

ArcelorMittal Gets Tough With Demand Rising, Steelmaker Expects to Recoup Costs by Increasing Prices

By [ROBERT GUY MATTHEWS](#) And [DEVON MAYLIE](#)

Steel giant [ArcelorMittal](#), swinging to a first-quarter profit, is poised to begin a round of price increases as global markets recover.

Chief Executive Lakshmi Mittal said price increases are needed to offset rising costs for raw materials, notably iron ore and coal. Raw-material prices are expected to double this year from 2009.

Corporate Offices at 8435 NE Killingsworth Street in Portland, OR 97220-4660

Phone: (503) 255-0557 Fax: (503) 501-5831

www.myerscontainer.com

ONE TEAM, ONE DIRECTION

"These price increases have to be passed on to the customers," Mr. Mittal said in an interview. He said global steel demand, which is expected to increase by 10% in 2010, will sustain the price increase.

The world's largest steelmaker by volume and revenue also is negotiating with customers on short-term contracts rather than annual or multiyear deals. "Our approach is to explain to them that they have to adapt to this new scenario," Mr. Mittal said.

The short-term agreements will allow ArcelorMittal to recover its costs more easily and benefit more quickly from rising demand. Longer-term contracts often are preferred by customers, such as auto makers and heavy-equipment makers, because they lock in costs.

The Luxembourg-based company on Thursday reported a net profit of \$679 million, recovering from a net loss of \$1.06 billion a year earlier. Revenue rose 23% to \$18.65 billion. The company expects second-quarter earnings to top the first quarter as demand and higher prices offset rising raw-material costs.

Shorter steel contracts would parallel moves by ArcelorMittal's suppliers. [BHP Billiton](#), [Rio Tinto](#) and other global miners, which control critical iron ore and coal supplies, this year have used their leverage to sell raw materials based on spot prices and short-term index pricing. Spot market prices for iron ore are about double the contracted ore prices.

"It is very difficult for us to offer long-term price commitments because we will no longer have long-term price commitments for our raw-material purchases," Mr. Mittal said. While the amount of steel ordered still could be negotiated on a long-term basis, the price for each batch delivered might be priced according to an index or monthly average.

A firm system is still being figured out. "We are working with them on this new raw-material pricing scenario," Mr. Mittal said.

About 50% of current contracts are slated to end this year and will be open for the new pricing negotiations, he said.

Mr. Mittal said he expects some resistance from steel buyers who are trying to find their footing in a recovering world economy. "It will be difficult, but not impossible," he said.

Heavy-equipment maker [Caterpillar](#) Inc. last week said it expects its cost for raw materials, including steel, to rise this year. Prices already are about 36% higher than a year ago, according to MEPS International Ltd., a U.K.-based steel-research company.

Mr. Mittal said demand in China has been "stronger than expected." Demand for steel used in cars and heavy equipment, as well as the pipe and plate steel used in energy production have been strengthening in other markets, he said. Demand rose 12% in the U.S. and 6% in Europe from the fourth quarter.

ArcelorMittal said it is boosting capacity utilization to 80% this quarter from 72% at the end of the first.

Corporate Offices at 8435 NE Killingsworth Street in Portland, OR 97220-4660

Phone: (503) 255-0557 Fax: (503) 501-5831

www.myerscontainer.com

ONE TEAM, ONE DIRECTION

Write to Devon Maylie at devon.maylie@dowjones.com

Corporate Offices at 8435 NE Killingsworth Street in Portland, OR 97220-4660
Phone: (503) 255-0557 Fax: (503) 501-5831
www.myerscontainer.com
ONE TEAM, ONE DIRECTION