

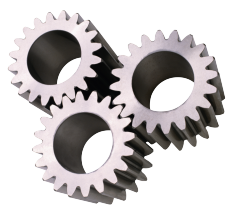


Washington Steel News

REPORT FOR EUROFER EXTERNAL RELATIONS COMMITTEE
January 2013

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1/28/13



I. Steel Market

A. Imports

According to final data, import levels increased by 4.3% from October to November, rising to 2.464 million metric tonnes. After accounting for the largest decrease in October, blooms, billets and slabs registered the largest increase in November, rising by two fifths to 608,127 tonnes. Cold rolled sheets and plates in coils registered increases of around a quarter to respectively 156,293 tonnes 129,547 tonnes. OCTG and cut-to-length plate products bucked the trend, respectively decreasing by 16% to 225,367 tonnes and 33% to 66,925 tonnes. According to preliminary data, OCTG imports continued to fall significantly in December, dropping by a third to 149,461 tonnes.

Imports from China (in metric tonnes)

Year	Month	Monthly	Annualized
2013	January*	71,861	862,335
2012	December*	107,309	1,287,710
	November	104,213	1,250,554
	October	79,312	951,741
	September	43,986	572,829
	August	101,487	1,127,848
	July	60,822	729,864
	June	130,372	1,564,463
	May	109,874	1,318,486
	April	95,572	1,146,870
	March	60,459	725,505
2011	February	50,340	604,083
	January	53,123	637,473
	December	42,722	512,669
	November	40,691	488,292
	October	60,367	724,400
	September	55,625	667,495
	August	70,629	847,545
	July	96,614	1,159,363
	June	86,296	1,035,552
	May	77,834	934,006
	April	46,819	561,828
	March	30,666	367,990

* license data

Note: ECSC total as reflected in product categories established by the ITA

This first chart uses the currently available data to estimate the recent levels of U.S. imports from China on a basis equivalent to ECSC treaty products. ECSC import levels have been volatile over the past few months. After recovering in August, imports fell again by over 60% in September, but then strongly recovered in October and November.

China

Chinese crude steel production increased 3.1% from 2011 to 2012, totaling 716.54 million tonnes. CISA had estimated 2012 production would total 697.48 million tonnes.

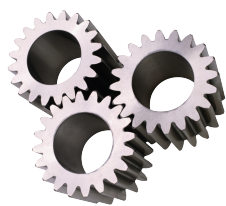
CISA projects a 3.1% increase in Chinese steel demand this year, compared to a 2.5% increase in 2012.

China imported 70.94 million tonnes of iron ore in December, up by 7.8% from November and marking an all-time record. China imported a record 743.55 million tonnes of iron ore in 2012, up 8.4% from 2011.

See Section IV for more China developments.

The following tables provide comparative figures for 2008, 2009, 2010, 2011 and the latest available six months of 2012. The first two tables cover

selected steel mill products, and the second two detail stainless steel products.



U.S. Selected Steel Product Imports from the World (in metric tonnes)

Monthly data	2009 avg.	2010 avg.	2011 avg.	2012 avg.	June 2012	July 2012	Aug. 2012	Sep. 2012	Oct. 2012	Nov. 2012
Wire rod	58,315	97,984	74,933	83,665	89,860	74,853	63,175	80,111	68,710	64,945
OCTG	116,529	177,367	217,364	281,153	310,884	281,767	267,650	278,238	266,127	222,649
Galvanized ¹	79,131	107,402	110,519	154,095	143,506	157,125	150,300	150,077	167,623	173,186
Standard pipe	45,602	58,785	62,908	74,041	79,235	70,316	68,190	86,683	65,850	67,005
Cold-rolled sheet	72,081	68,982	82,099	97,457	93,746	78,269	101,921	88,358	95,088	133,889
Line pipe	120,255	112,539	148,476	212,243	189,408	284,225	204,099	148,369	222,575	211,125
Metallic coated ²	53,007	76,676	79,318	95,234	92,088	74,423	82,332	100,937	85,829	104,096
Hot-rolled bar	51,472	77,071	97,325	114,891	142,264	107,647	124,049	86,106	101,529	120,257
Cut-to-length plate	36,851	52,560	82,053	101,209	102,056	101,653	132,023	106,648	93,572	61,350
Hot-rolled sheet	131,986	178,616	198,454	203,031	206,204	264,288	157,759	201,270	193,336	167,320
Hot-rolled strip	3,357	3,249	4,995	8,844	9,067	8,867	10,075	84,15	12,648	11,846
Reinforcing bar	30,967	39,052	49,521	75,537	60,808	33,365	52,167	41,956	53,247	88,500
All Carbon and Alloy	1,198,201	1,738,280	2,071,750	2,460,645	2,451,871	2,404,594	2,317,471	2,279,593	2,275,614	2,369,084
All Steel Mill Products ³	1,245,558	1,809,014	2,155,719	2,557,353	2,558,234	2,519,284	2,426,196	2,361,451	2,364,501	2,464,283

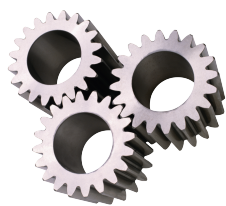
U.S. Selected Steel Product Imports from China (in metric tonnes)

Monthly data	2009 avg.	2010 avg.	2011 avg.	2012 avg.	June 2012	July 2012	Aug. 2012	Sep. 2012	Oct. 2012	Nov. 2012
Wire rod	588	865	19	5,003	20,913	0	6,975	16	0	0
OCTG	55,565	3,185	1,364	1,842	1,432	2,282	4,183	5,791	707	68
Galvanized ¹	6,811	11,856	14,511	18,018	27,599	18,915	18,647	7,617	23,272	14,056
Standard pipe	2,880	897	1,502	1,380	1,992	646	992	1,499	624	1,402
Cold-rolled sheet	3,059	4,872	13,280	19,253	26,647	10,642	27,572	2,357	17,746	40,363
Line pipe	8,543	3,371	4,449	5,282	4,316	4,906	6,537	4,459	6,053	9,574
Other metallic coated ²	3,895	6,731	8,546	11,891	12,095	7,451	9,498	17,259	11,595	8,263
Hot-rolled bar	2,259	1,795	7,539	16,431	22,888	14,180	27,662	9,313	8,204	36,707
Cut-to-length plate	405	627	985	630	1,910	476	216	1,909	103	307
Hot-rolled sheet	16	171	1,673	1,191	2,786	2,320	416	1,215	238	1,132
Hot-rolled strip	11	3	11	3	1	0	2	2	2	1
Reinforcing bar	9	7	16	23	0	40	15	41	55	17
All Carbon and Alloy	101,875	56,018	82,552	111,687	164,415	94,533	132,917	80,456	110,125	132,747
All Steel Mill Products ³	106,931	65,082	93,696	122,850	178,606	109,025	148,998	93,174	119,875	144,304

¹ Includes only hot-dipped galvanized

² Includes tin plate, electro-galvanized, and other metallic coated sheet and strip

³ Includes stainless products



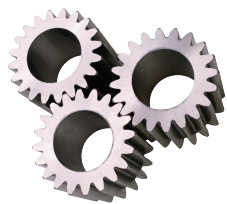
U.S. Stainless Steel Product Imports from the World (in metric tonnes)

Monthly data	2009 avg.	2010 avg.	2011 avg.	2012 avg.	June 2012	July 2012	Aug. 2012	Sep. 2012	Oct. 2012	Nov. 2012
Cold-rolled sheet	13,847	23,350	23,185	24,243	26,584	30,489	29,899	23,131	26,620	22,404
Pipe & tubing	6,806	8,304	9,593	11,032	10,457	10,321	12,501	10,929	10,573	9,650
OCTG	3,494	2,859	2,516	2,025	1,858	1,220	1,654	870	3,273	2,717
Line pipe	322	151	775	1,028	961	1,578	1,698	1,019	1,048	1,492
Wire drawn	106	164	3,507	3,735	3,863	3,677	4,345	3,780	3,836	3,478
Cut-to-length plate	2,885	4,089	6,302	8,224	10,789	11,425	7,605	9,859	6,171	5,574
Wire rod	2,465	3,387	1,807	2,112	2,110	2,942	1,435	2,277	2,150	1,547
Plates in coils	1,159	3,290	6,834	7,928	8,572	9,865	8,425	2,884	1,891	6,005
Cold finished bars	4,242	6,173	8,180	8,380	8,092	9,427	8,463	6,342	8,721	7,035
Cold rolled strip	2,067	3,286	3,417	3,124	3,620	4,043	3,020	2,514	2,687	3,479
Hot rolled strip	118	127	125	208	306	111	174	190	115.1	220.2
Blooms, billets & slabs	5,158	6,930	8,761	11,767	11,090	11,575	8,105	9,695	13,025	21,360
All Stainless Products	47,357	70,734	83,968	96,708	106,363	114,690	108,725	81,858	88,886	95,198

U.S. Stainless Steel Product Imports from China (in metric tonnes)

Monthly data	2009 avg.	2010 avg.	2011 avg.	2012 avg.	June 2012	July 2012	Aug. 2012	Sep. 2012	Oct. 2012	Nov. 2012
Cold-rolled sheet	1,643	5,846	6,778	5,952	8,363	9,244	9,140	6,834	6,133	5,244
Pipe & tubing	984	1,077	1,567	1,782	2,141	2,196	1,835	2,171	1,450	1,555
OCTG	1,176	42	38	50	148	18	41	103	21	17
Line pipe	72	10	264	248	171	499	552	394	221	214
Wire drawn	0	582	614	548	541	476	793	503	450	276
Cut-to-length plate	609	279	680	623	1,065	830	693	714	502	578
Wire rod	259	138	237	251	458	166	186	632	298	134
Plates in coils	77	119	465	1,134	728	318	2,128	219	95	2,990
Cold finished bars	61	106	166	178	167	273	226	205	197	159
Cold rolled strip	58	402	161	183	182	198	257	283	211	188
Hot rolled strip	1	1	1	7	1	0	1	3	25	23
Blooms, billets & slabs	8	4	12	20	31	27	6	4	9	13
All Stainless Products	5,055	9,064	11,143	11,162	14,191	14,492	16,081	12,717	9,749	11,556

Note: all four tables based on product categories established by the ITA
* Preliminary figures



B. Exports

U.S. ECSC Steel Product Exports to the World (in metric tonnes)

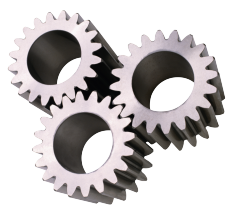
Year	Month	Monthly	Annualized
2012	November	643,001	7,716,014
	October	789,237	9,470,849
	September	693,101	8,317,213
	August	764,545	9,174,535
	July	728,967	8,747,607
	June	770,803	9,249,636
	May	844,557	10,134,684
	April	785,345	9,424,140
	March	812,315	9,747,778
	February	824,864	9,898,368
	January	878,807	10,545,684
2011	December	836,161	10,033,932
	November	858,657	10,303,879
	October	753,933	9,047,201
	September	826,042	9,912,508
	August	797,311	9,567,727
	July	707,124	8,485,488
	June	751,875	9,022,505
	May	774,232	9,290,789
	April	676,301	8,115,606
	March	764,412	9,172,942
	February	639,472	7,673,660
	January	711,182	8,534,180
2010	December	601,818	7,221,824
	November	663,360	7,960,319
	October	652,587	7,831,040
	September	668,917	8,027,006
	August	634,237	7,610,843
	July	616,553	7,398,640
	June	730,110	8,761,320
	May	732,521	8,790,249
	April	785,470	9,425,640
	March	825,668	9,908,016
	February	622,731	7,472,772
	January	674,148	8,089,772
2009	December	648,153	7,777,846

Note: ECSC total as reflected in product categories established by the ITA

U.S. steel mill product exports totaled 905,404 tonnes in November, a 16% decrease from October figures and the lowest level in over a year. NAFTA partners were again the largest importers of U.S. products.

Total exports to EU member countries decreased by 46% to a record low 20,269 tonnes. After accounting for the bulk of the rise in October, Italy accounted for the bulk of the fall in November, falling 82% to 2,315 tonnes.

Total ECSC steel product exports decreased 18.5%, to 643,001 tonnes. Blooms, billets and slabs accounted for most of the fall in November, decreasing 94% to 2,371 tonnes. Only tool steel and wire rods bucked the trend in November, respectively rising by 31% to 9,456 tonnes and 14% to 12,614 tonnes.

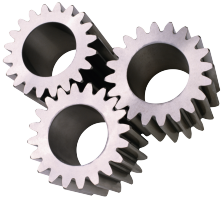


The following table details the top 20 export markets for U.S. steel products based on U.S. Census data for the latest three months. Following the usual pattern, shipments to Canada and Mexico accounted for 85% of total U.S. exports in November, with the balance being widely dispersed.

U.S. Steel Export Markets (in metric tons)

	2012 Average	September 2012	October 2012	November 2012
Top 20*	983,857	901,887	1,004,088	861,479
Canada	520,721	484,451	521,561	503,766
Mexico	319,514	289,579	357,151	265,055
Dominican Republic	15,449	25,684	16,010	981
Brazil	16,396	8,278	12,544	17,145
China	9,178	10,192	8,915	6,831
India	8,750	8,616	8,425	7,799
Italy (EU)	12,004	7,449	13,120	2,315
Oman	2,244	638	20,260	518
Venezuela	9,607	3,685	6,634	10,811
Peru	13,740	12,630	5,599	1,407
Colombia	9,471	6,813	5,598	6,590
Honduras	5,615	7,073	338	8,002
Germany (EU)	5,487	4,799	5,142	4,037
Belgium (EU)	6,685	6,771	4,283	2,823
Jamaica	3,890	7,182	216	5,403
United Kingdom (EU)	10,334	4,210	4,105	4,185
Pakistan	3,400	3,305	4,068	4,422
Korea	3,741	3,150	4,034	4,025
Ghana	4,329	4,536	2,861	2,103
Bahamas	3,302	2,846	3,223	3,262
European Union	44,302	33,874	37,335	20,269
World	1,053,620	959,621	1,075,753	905,404

*Based on the total from the past three month



C. General Economic Indicators

- **Growth**

The U.S. economy grew 3.1% in the third quarter of this year, higher than the 2.7% anticipated by the U.S. Department of Commerce in its second estimate, and much higher than the 1.3% rate of growth in the second quarter. However, the rate of growth is expected to fall below 2% in the final quarter of this year, and popular expectations range from moderate to gloomy. Strikingly, the protracted battle over the “fiscal cliff” and the national debt ceiling has served to underscore the lack of consensus on a national growth strategy. Republicans are for now sticking with their goal of reduced spending and budget balance, while Democrats seem intent on increasing taxes on the highest-income earners. Neither approach is likely to produce the expanded investment – both public and private – that is needed for sustained economic and employment growth.

- **Employment**

Nonfarm payroll employment rose by 155,000 jobs in December. Manufacturing sector employment rose by 25,000. Overall, officially reported unemployment in December increased to 7.8%.

In the week ending January 18, the four-week moving average for initial unemployment claims decreased to a seasonally adjusted 351,750 – the lowest level in close to five years. The number of people receiving unemployment benefits decreased from 5.9 million in the last week of December to 5.7 million in the first week of January.

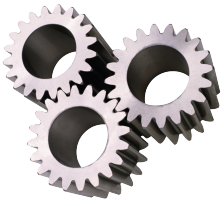
- **Residential housing**

Single-family housing starts in December increased 8.1% compared to the previous month, totaling an annualized 616,000.

The National Association of Realtors’ pending home sales index, which tracks contract signings, increased for the third consecutive month, by 1.7% to 106.4 in November, the highest level since March 2007.

The S&P/Case-Schiller 20-City Home Price Index registered a 4.3% increase in home prices in the 12 months ending in October.

The stronger figures from the housing sector have prompted some analysts to predict a stronger course for the American recovery, but others are warning that the positive effects are not likely to be sustained.

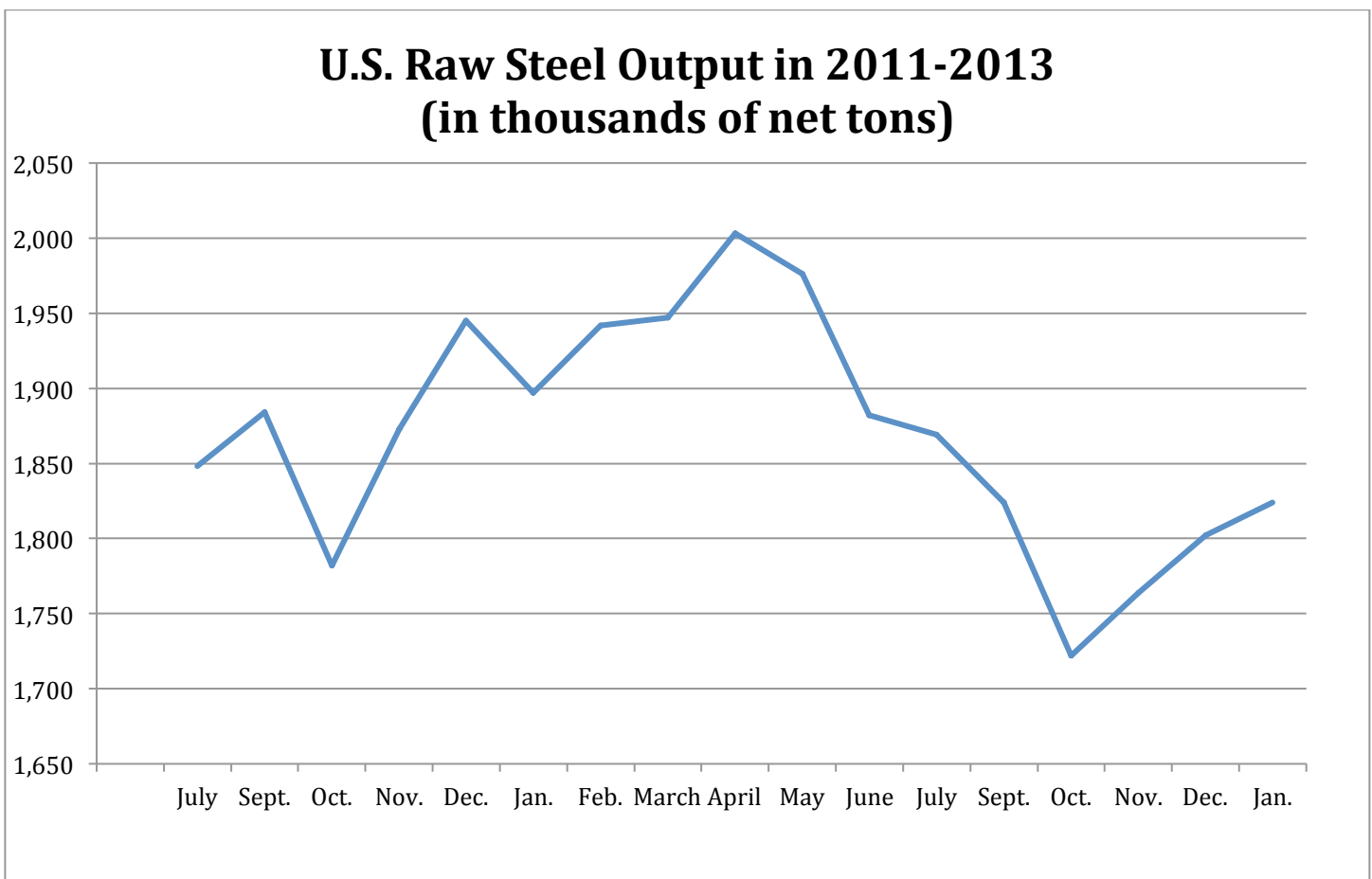


- **Auto**

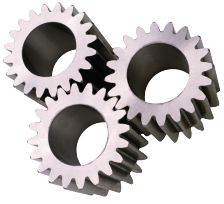
New U.S. light vehicle sales continued their strong streak, totaling 1.355 million vehicles in December, up 9% from the same month last year. Virtually all the automakers registered sale increases over December 2011: GM sales increased 4.9% (245,733 vehicles); Ford, 1.6% (212,902); Toyota, 9% (194,143); Chrysler, 10.4% (152,367); Honda, 26.2% (132,774); Hyundai, 17.1% (59,435); Volkswagen, 35.4% (44,005); BMW, 39.4% (37,399); Subaru 8.8% (36,653); Mercedes, 11.3% (30,376); Audi, 17.3% (14,841); Volvo, 15.1% (6,150). Nissan, Kia and Mitsubishi bucked the trend, respectively registering decreases of 1.6% (99,290), 9.7% (39,178), and 18.3% (4,113).

D. Production and Prices

- Through the third week of January, U.S. raw steel production totaled 5,399,000 tons – a 5.9% decrease from the same period last year. The operating rate for the year-to-date is 74.9%, compared to 77.6% for the same period last year.



- U.S. steel mill shipments decreased by 0.5% month-on-month to 7.4 million tons in November.



- AK Steel, ArcelorMittal, Nucor, NLMK, and Severstal North America and U.S. Steel have announced \$50/ton price hikes on flat-rolled steel, bringing the price of hot-rolled coil to \$650/ton, cold-rolled to \$750/ton, and galvanized to \$760/ton.
- Long product prices remained flat in January: wire rod is currently selling for around \$670/ton and rebar for \$680/ton.

E. Industry

Production

- Outokumpu Stainless USA has announced a target of ramping production at its 900,000 tpy plant in Calvert (Alabama) to increase its share of the North American stainless market from 20% to 25% by 2014. The company plans to produce 200,000 tonnes of stainless steel in 2013.
- Citing market uncertainty, environmental problems and labor negotiations, Esmark indefinitely pushed back plans to begin production at its new Ohio Cold Rolling plant. This is the second postponement, following an announcement last month that production would begin in March 2013 at the earliest. The plant was originally slated to come on line in January and supply Esmark's Ohio Coatings joint venture with cold-rolled substrate. Esmark acquired both Ohio Cold Rolling – formerly Yorkville – and a 50% in the joint venture with South Korea's TCC from bankrupt RG Steel.

Sales

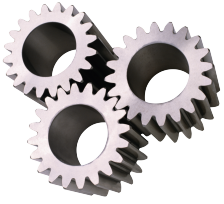
- A group of independent rebar fabricators from the U.S. and Canada has launched the Independent Steel Alliance (ISA) this month to leverage their joint purchasing power and secure lower prices from steel suppliers. ISA claims to account for \$500 million in purchases.

Investments

- Evraz North America has announced a multimillion-dollar investment in expanding capacity at its plant in Calgary, Alberta. The company plans to increase the 300,000 tpy pipe plant's capacity by 150% in heat-treat capacity and around 40% in threading capacity.

Mergers & Acquisitions

- The Wall Street Journal has reported that Brazil's Companhia Siderurgica Nacional (CSN) made a \$3.8 billion offer to acquire ThyssenKrupp's plant in Calvert (Alabama) as well as its Companhia Siderurgica do Atlantico (CSA) slab plant in Brazil. ArcelorMittal has also expressed interest in the facility, but reportedly for less than a third of CSN's bid.



Bankruptcies

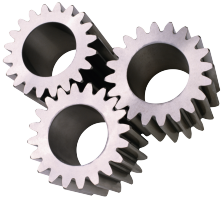
- Bankrupt RG Steel has asked the U.S. Bankruptcy Court in Delaware to declare the company still has a security interest in, and management rights to, Mountain State Carbon (MSC), a 50-50 joint venture between RG Steel and Severstal. Meanwhile, Severstal is seeking a court order to allow the company to enforce a lien on RG Steel's interest in MSC on the grounds that RG Steel still owes Severstal \$100.7 million.
- RG Steel's creditors are seeking to collect \$238 million from the steelmaker's parent company Renco Group and its CEO Ira Rennert for allegedly delaying filing for bankruptcy for Rennert's personal gain.
- RG Steel is seeking the recovery of over \$6.1 million in payments made to at least 29 suppliers dating to the three months before it filed for bankruptcy.
- BDM Warren Steel Holdings, the latest owner of RG Steel's plant in Warren (Ohio), has begun the process of auctioning all assets that are not necessary to the operation of the site's hot mill. The auction is scheduled to take place March 12-15 and includes equipment from the plant's galvanizing and silicon annealing lines.
- Hackman Capital is seeking to lease the Beech Bottom (West Virginia) facility it acquired from RG Steel to a company in the energy industry, given the site's proximity to the Marcellus and Utica natural gas shale.
- Three former RG employees have founded MoveTran, a steel logistical service provider that will focus on coil, pipe and tube, among other products. The company is leasing and then plans to purchase a warehouse from Heidtman Steel Products, which used to process RG Steel's products.

Labor

- Outokumpu Stainless is hiring 150 workers at its new stainless steel plant in Calvert (Alabama).
- The United Steelworkers have ratified a seven-year labor contract with Kentucky Electric Steel at its plant in Ashland (Kentucky). The agreement covers 117 hourly workers and includes pay raises.

Executive

- The Federal Reserve Bank of Cleveland has appointed U.S. Steel chairman and CEO John Surma as a new director effective January 1.



- Former ArcelorMittal head of strategy and marketing Sachin Shivaram has assumed the position of general manager of metallic purchasing at Severstal North America.

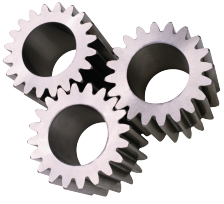
Research

- The American Scrap Coalition and Steel Manufacturers Coalition have released a study showing that increasing scrap consumption by a growing domestic steel industry rather than exporting the scrap would be beneficial to the U.S. economy and help decrease the trade deficit.
- Severstal North America has formed a partnership with Mississippi State University's Center for Advanced Vehicular Systems to establish a steel research center, underscoring how the steel industry's center of gravity continues to shift.
- The American Wire Producers Association (AWPA) has submitted a request to the Department of Commerce (DOC) calling for extension of the Steel Import Monitoring and Analysis to netting and fencing, rope and cable, steel springs, steel wire strand, steel wire garment hangers, and welded steel wire grill.

II. TRADE POLICY

A. Trade Remedies

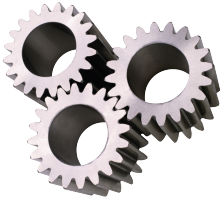
- U.S. International Trade Commission (USITC) hearings in a sunset review of duties on carbon-resistant steel product imports from Germany and South Korea focused on the effect of the impending sale of ThyssenKrupp's plant in Calvert (Alabama). Foreign petitioners argued the duties should be revoked given ThyssenKrupp's record of supplying most of its steel from the U.S., while domestic petitioners argued ThyssenKrupp might change course once it sold the Calvert plant.
- Following the withdrawal of Nucor's request for a review, the U.S. Department of Commerce (DOC) has rescinded its administrative review of carbon and alloy steel wire rod imports from Mexico for the period of review beginning October 1, 2011 and ending September 30, 2012.
- In a sunset review the USITC ruled that the revocation of an antidumping order on clad steel imports from Japan would likely injure the domestic industry. The margin is currently 118.53%.
- OCTG producers, including U.S. Steel, Tenaris, and Vallourec are reportedly considering bringing a trade case against South Korea, Vietnam and other Asian producers.



- The DOC has ruled that Korean cut-to-length carbon steel plate exporters Dongkuk Steel and TCC Steel, and Brazilian stainless steel bar exporter Villares Metals did not dump their product during the period of review beginning February 1, 2011 and ending January 31, 2012.
- Four domestic producers have filed complaints with the U.S. Court of International Trade (CIT) challenging the USITC's ruling that circular-welded carbon-quality steel pipe imports from India, Oman, Vietnam and the United Arab Emirates. The scope of JMC Steel's filing covers India, Oman and the UAE; KHK Scaffolding and Universal Tube & Plastics have focused on the UAE; and SeAH Steel Vina Corp. has challenged the decision with regard to Vietnam.
- The CIT has determined that the GPX bill enacted in 2012 did not violate the U.S. Constitution by retroactively authorizing the DOC to apply countervailing duties to non-market economy countries such as China. As a result, the law will remain in effect and a series of countervailing duties on Chinese and other NME products will continue. However, the CIT remanded to DOC several issues dating back to the original finding in the tire case.

B. Trade Remedies – China

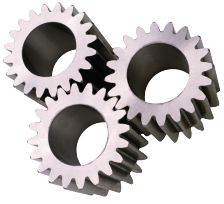
- A group of domestic pipe and tube producers have sent a letter to the U.S. Trade Representative (USTR) calling for a strong stand against China's request for the establishment of a WTO dispute settlement panel over U.S. subsidy duties on nonmarket economies. The USTR's comment period on the request ended on December 30. China claims that \$7.3 billion worth of its goods have been affected by 30 U.S. countervailing duty investigations since 2006. China's first request was rejected.
- The DOC has rescinded an administrative review of OCTG imports from China for a period of review ranging from May 1, 2011 to April 30, 2012.
- Following petitioners' withdrawal, the DOC has rescinded its administrative review of circular-welded carbon-quality steel pipe imports from China.
- The DOC has amended the final results of its antidumping review of steel threaded rod imports from Chinese exporter Vulcan Threaded Products. The amended weighted-average dumping margin is 21.15%, up from 19.68%.
- Petitioners American Tubular Products and Jiangsu Chengde Steel Tube have filed an appeal with the CIT, claiming the DOC incorrectly used Indonesia as a surrogate and failed to take into account revenue from scrap sales in its calculation of normal values.
- The Canadian International Trade Tribunal (CITT) has made a positive determination to continue anti-dumping orders on hot-rolled carbon steel plate from China. No parties filed arguments opposing the order's continuation.



- In a final determination the CITIT ruled that dumped and subsidized carbon and alloy steel pipe pile imports from China did not injure the domestic industry.
- The CITIT has completed a preliminary investigation of alleged dumping of galvanized steel wire product imports from China, Israel and Spain.
- Wire rod imports from China in the fourth quarter of 2012 have reportedly been misclassified as hot-rolled bars in the DOC's import statistics, causing a close to 100,000 ton discrepancy between registered and actual imports. While neither product faces import duties in the U.S. hot-rolled bars are not subject to Chinese export taxes and benefit from a tax rebate.
- A study by Fred Bergsten and Joseph Gagnon from the widely respected Peterson Institute for International Economics has found that currency manipulation is responsible for up to \$500 billion of the U.S. trade deficit and up to 5 million jobs. The authors recommended that the administration work with other affected countries to respond using macroeconomic and trade policy tools, including a legal challenge at the World Trade Organization, intervention in foreign exchange markets and other comprehensive measures. In recent months, Bergsten has escalated his rhetoric in sounding the alarm over the threat to the global economy posed by the currency practices of China, Japan, Switzerland and more than 15 other countries.

C. Trade Agreements

- After a relatively undistinguished tenure, U.S. Trade Representative Ron Kirk announced his resignation on January 22. There is no indication as yet regarding a successor, but speculation centers on DOC Undersecretary for International Trade Francisco Sanchez.
- The U.S., Chile and Peru are negotiating the basis of an environment chapter to help advance Trans-Pacific Partnership negotiations in this area. Enforceability remains the biggest sticking point.
- The U.S. and EU are considering a multi-track approach to bilateral trade negotiations in order to allow for speedier agreement in the least controversial areas. Negotiations may be launched as early as February.
- Newly appointed House Ways and Means trade subcommittee chairman Devin Nunes (R-CA) has identified the renewal of presidential trade promotion authority (TPA) and strengthening of trade relations with Brazil as top priorities. TPA is also a priority for the U.S. Chamber of Commerce and other business groups. Consumer, environmental, labor and other groups are beginning to organize their strategy to oppose TPA. For many of them, the basic objective is to raise the bar for the TPP and future negotiations. The Obama administration is expected to wait until TPP and other trade negotiations are close to completed before pushing for TPA.



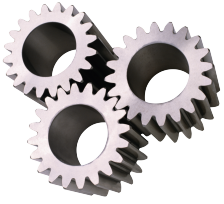
D. Industry Action

- The U.S. steel industry has identified passage of the Enforcing Orders and Reducing Circumvention and Evasion (Enforce) Act as a trade priority in 2013. A new version of the bill is expected to be introduced soon.
- In addition, it seems likely that some version of the Currency Reform for Fair Trade Act will be introduced in the House. It simply seeks to apply countervailing duty remedies to imports benefiting from persistently undervalued currencies if they are found to cause material injury. However, there is no sign that the White House, Treasury-designee Jack Lew or the House Republican leadership have dropped their opposition to the bill.

III. ENERGY AND ENVIRONMENT

A. Steel-related

- A subcommittee of ASTM's International Magnetic Properties Committee is developing a new standard on the "Specification for Thin-Gauge Fully Processed Non-Oriented Electrical Steel" (ASTM WK35463) that will cover very thin steel laminations used in electric vehicles, advanced aircraft and power generators to increase efficiency.
- In a final evaluation of TransCanada's proposed reroute for the Keystone XL pipeline, Nebraska's Department of Environmental Quality assessed the environmental impact would be minimal. The new route avoids the Sandhills region, which includes endangered species habitat, erodible soils and shallow groundwater. The pipeline is now routed to go through Nebraska's High Plains Aquifer, where the effect on aquifers is expected to remain contained. TransCanada would be responsible for any necessary cleanup. President Obama denied the project a permit last year citing its environmental impact. TransCanada anticipated receiving a permit this year and has already announced plans to begin construction on the approved southern segment of its pipeline.
- The U.S. Environmental Protection Agency (EPA) has granted several parts of a petition filed by the American Bottom Conservancy against an operating permit the Illinois EPA issued to U.S. Steel's plant in Granite City. The environmental group raised the following issues with the permit:
 - failure to provide for periodical monitoring of emissions to ensure and enforce compliance;
 - failure to respond to EPA orders on excess emissions produced during start-ups and breakdowns; and
 - failure to integrate requirements from the permit for the company's Gateway Energy & Coke plant.



The EPA agreed with the first two points and has directed the Illinois EPA to specify emissions factors and emissions minimization strategies during start-ups and breakdowns. The last point was rejected on the grounds that the Gateway coke plant will receive a separate Clean Air Act permit.

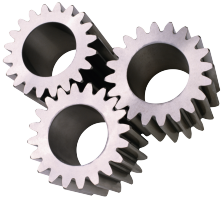
- California's Environmental Protection Agency's Air Resources Board (ARB) has scheduled its second quarterly greenhouse gas cap-and-trade auction for February 19 with a reserve price of \$10.71 per tonne. The first auction, which took place in November, yielded an average price of \$10.09 per tonne. ARB has set a minimum of \$10 per tonne. The California Chamber of Commerce unsuccessfully filed a lawsuit challenging the auctions. USS-Posco and California Steel Industries are affected since their plants in California emit more than 25,000 tonnes of CO₂ per year. Citing regulatory uncertainty USS-Posco did not purchase any carbon credits in the first auction, while CSI did.

B. Industry action

- The U.S. Chamber of Commerce, National Association of Manufacturers, Emergency Committee for American Trade, and National Foreign Trade Council have mounted a campaign calling on the Obama administration to lift restrictions on LNG exports. However, many businesses, including Nucor, have voiced concerns that exports might lead to domestic price increases for natural gas. The U.S. Department of Commerce has decided to keep the 15 pending export applications on hold until it completes a full evaluation of the issue. Under the U.S. Natural Gas Law, the DOE must find that LNG exports would be consistent with the public interest before it authorizes exports to non-FTA partners.

C. Government action

- EPA administrator Lisa Jackson has announced she is stepping down. No successor has been named yet. Jackson's major achievement is the EPA finding that carbon dioxide and five other greenhouse gas emissions constitute pollutants subject to regulation under the Clean Air Act. The finding paved the way for the passage of tighter fuel efficiency standards for vehicles and power plants.



IV. CHINA

Improving Economy Continues

The Chinese economy finished 2012 with a more stable economy and a brightening outlook for the new year. GDP growth held steady in December; the party line was that domestic demand had begun to compensate for softening external demand. Nonetheless, December exports rose by 14% year-on-year and for the year as a whole were up by 7.9% (in line with GDP growth). Imports rose by only 4.3 percent, causing the annual trade surplus to surge 48% higher than 2011, the first increase after three consecutive yearly declines.

Inflation ticked up in December, pushed by higher fuel prices and some weather-related disruptions to food production. Housing prices also rebounded, easing fears of a bubble. Even with wage growth slowing (up 9.8% in the third quarter of 2012), however, there is concern that inflation will be higher and growth lower in 2013. To the extent that considerable time would be needed to wean the Chinese economy off its dependence on exports (the equivalent of one-quarter of total GDP), slow growth in the industrial countries remains a major concern for Chinese economic policy makers.

Foreign direct investment continues to fall. November 2012 saw a 5.4% yoy reduction to “only” \$8.29 billion. EU (-2.9%) and German (-25.8%) investment helped feed the reduction, while US investment rose by 6.3% yoy. MOFCOM is predicting an improved investment climate for this year. Whether that will help the process of promoting domestic demand-led growth remains to be seen.

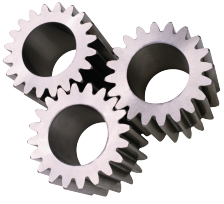
The Chinese auto sector is expected to be one area of stronger domestic demand. This year could mark the first time that Chinese production surpasses Europe’s, with a projected 19.6 million cars and light trucks compared to 18.3 million projected for the EU, Russia and Turkey combined.

It also seems clear that China is committed to continued road construction (up 37% yoy in November). Local governments are back in the bond issuance business after a sharp contraction in 2011, opening the way to more infrastructure building.

Xi’s Popularity Grows

In advance of the formation of a new government in March, Party chief Xi Jinping continues to impress political observers and ordinary Chinese as well. He travels with little pomp, spends time with humble Chinese families, and hammers away at the corruption issue that rankles so many middle class Chinese.

Xi is directing a campaign against corrupt officials, both the lower level “flies” and the more senior level “tigers.”



At the same time, the government is struggling to find ways to ease the constraints on free expression without opening a Pandora's box of troubles. The well-publicized conflict over censorship of the prestigious *Southern Weekend* ended with baby steps toward greater journalistic freedom and mounting criticism on the internet.

Steel Industry Rebounds Continues

Improved macroeconomic conditions continue to deliver a degree of relief to the Chinese steel industry. As noted above, CISA is expecting a better than 3 percent increase in steel demand in 2013. Nevertheless, Chinese steel mills are concerned by:

- Rising iron prices. Spot prices hit a peak in January, 83% above the September level.
- Limited room to raise prices.
- Weaker exports after a 6.3% drop in December.
- Poor earnings for many mills, although Anshan climbed into the black in December after running losses throughout 2011 and most of last year.

The fundamental issue, of course, is massive overcapacity. CISA Secretary General Zhang Changfu said at a recent meeting organized by mysteel.com: "The steel industry is facing an increasingly difficult time, and the surplus capacity is worsening."

Until China finds a workable, persuasive means to induce closure of the older, smaller mills owned by provincial and municipal governments, such statements are likely to be repeated ad nauseum.