



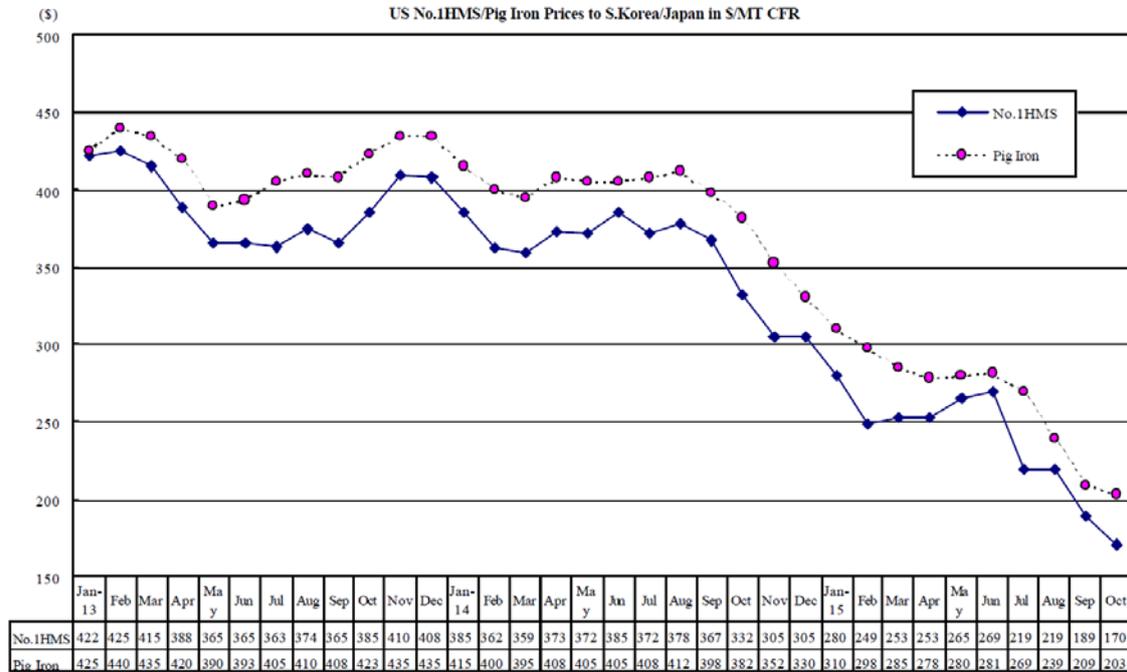
ACOR

AUSTRALIAN COUNCIL
OF RECYCLING

AUSTRALIAN SCRAP MARKET ANALYSIS

NOVEMBER 1, 2015

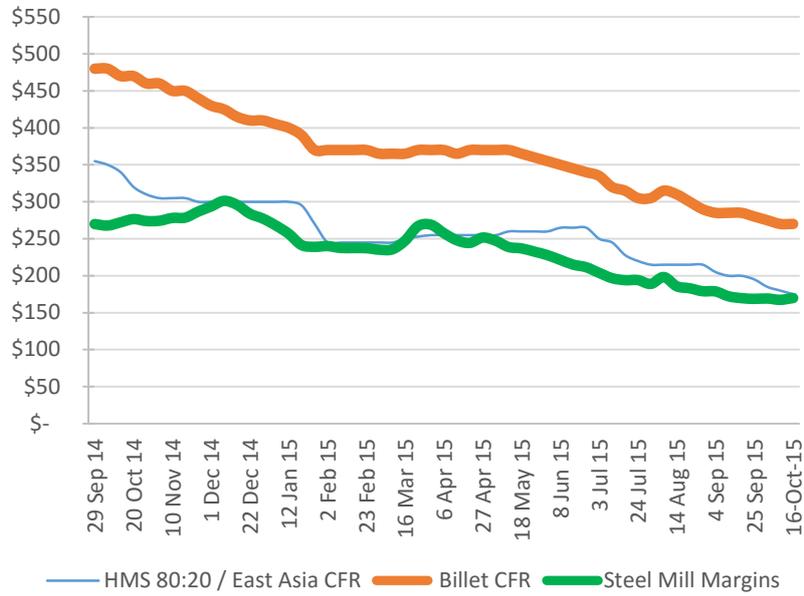
SCRAP METAL PRICES CONTINUE TO DECLINE



Note: Last official price is USD\$170, but based on Russian sale at USD\$154 on 3/11/15, the true market is closer to USD\$160

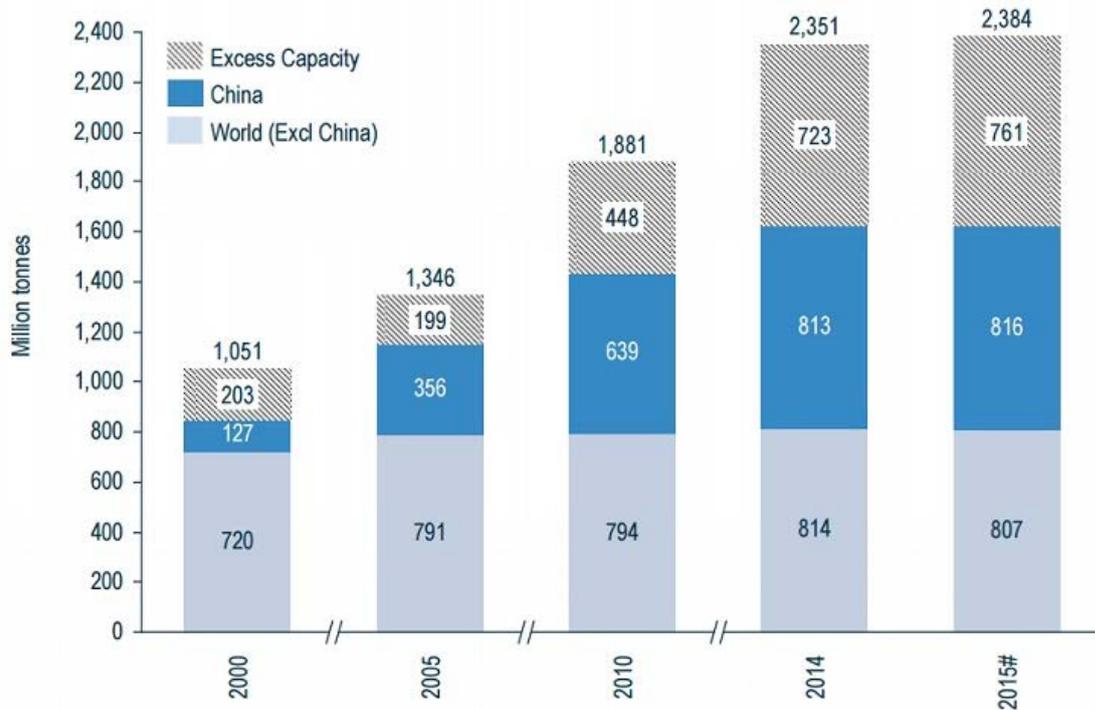
THE SCRAP PRICE WILL NOT BOTTOM UNTIL BILLET PRICES AND STEEL MILL MARGINS STOP FALLING

ASIAN STEEL PRICES USD / Tonne



STEEL PRICES AND MARGINS ARE FALLING BECAUSE CHINESE STEELMAKERS ARE FLOODING THE WORLD WITH EXCESS STEEL

WORLD STEEL PRODUCTION AND CAPACITY



Note #: 2015 production is annualised from WSA monthly data to June 2015
Source: World Steel Association

CHINESE MONTHLY STEEL EXPORTS

In 2009-10, 1.9 million tonnes of metal waste was exported which represented 52% of total waste exports.¹

¹ Australian Bureau of Statistics, 2013



INDUSTRY CONSENSUS FORECASTS SCRAP METAL PRICES ARE LIKELY TO FALL FURTHER AND NOT RECOVER FOR THE FORESEABLE FUTURE

Most scrap is consumed in Electric Arc Furnaces (EAFs) who make billet and then roll it into products. EAFs are easy and cheap to start and stop. Cheap billet means unless scrap falls too, the best option is to turn off the EAFs and import billet instead of scrap

The price of billet is key:

- Scrap prices will almost certainly follow the billet price
- Unless the price of billet rises, the price of scrap cannot rise

It is unlikely the price of billet will increase in the foreseeable future:

- Iron ore prices will not rise because of new mines coming on line (rather iron ore is forecast to get cheaper)
- Local Chinese steel demand has fallen but Chinese governments are likely to support local steel blast furnaces for both ego and political (employment) reasons
- So Chinese blast furnaces will continue to operate and flood the world with cheap billet

THE AUSTRALIAN METAL RECYCLING INDUSTRY MUST ADAPT TO “THE NEW NORMAL” OF LOWER SCRAP PRICES

The adjustment will be uncomfortable for everyone in the industry; suppliers, collectors, processors and end users

Some scrap will no longer be viable to recycle, even its available for free

- Remote / Country (transport costs)
- Low grade or scrap with high waste content (high waste disposal costs)
- Complex (high processing costs)
- Hazardous (processing and waste disposal costs)
- Scrap at locations with high compliance costs or inefficient work practices

Low prices means low margin and eliminates any ability to absorb additional costs

- In some cases, collection costs will need to be back charged
- With low quality scrap, processing costs may have to be back charged
- Waste disposal costs will need to be back charged for some items

POSSIBLE GOVERNMENT RESPONSES

- Formal support for **use of recycled steel** in projects across all tiers of government
- **Elimination on taxes and levies on residual waste** generated in recycling process
- **Offer freight subsidises** to enable delivery of recyclables to processing facilities
- Enforcement of anti dumping regulations to **protect the Australian steel industry** from dumped Chinese steel
- **Accelerated depreciation** allowances for investment in recycling infrastructure and equipment