

Tube 2012: Energy sector remains the driving force behind development

Steel tube industry back on course for growth worldwide

Following the economic crisis in 2009, the steel tube and pipe industry has noticeably benefited from the economic upturn in 2010. The manufacturers have once again been able to increase utilization of their production capacities, however rises in raw materials prices and energy costs had a dampening effect on the revenue situation. On a worldwide scale the production of seamless steel tubes increased particularly strongly in 2010, but the welded tube sector also registered growth. The driving force behind this development was once again the energy sector.

The year before the industry was hardly in a position to foresee the quick recovery of the global economy. In 2009 steel tube production recorded a worldwide decline of 13 percent to 109 million tons. The German steel tube industry, which is heavily dependent on international markets was – apart from large tube production – also affected by the development. Almost all the buying sectors registered more or less sharp declines. In this context not only the exploration activities of the oil and gas industry declined as a result of the falling energy consumption along with tumbling oil and gas prices, important customer sectors such as mechanical engineering and the automobile industry were also very reticent in placing orders. An exception was that of the power station sector, which due to long lead times, was able to continue the extension of its worldwide capacities once again in 2009.

Of the major tube and pipe manufacturers, in 2009 China was the only country to increase its production. With an increase of 14 percent to 53 million tons the People's Republic further extended its status as the world's leading producer of steel tubes and pipes. In contrast, in the CIS nations production fell by 19 percent, whereby Russia alone recorded a decline of 13 percent. The steel tube and pipe manufacturers in the USA and the EU had to contend with absolute declines of 45 percent and 32 percent respectively. In 2009 German steel tube production declined by 25 percent to 2.9 million tons. In this context, German production of large tubes

benefited from the long-term based project business which prevented an even larger decline.

All types of tubes and pipes were affected by the trend, whereby the production of large welded tubes experienced a heavier slump worldwide at 21 percent (to 15 million tons) compared to welded steel tubes up to 16 inches (406 millimetres) external diameter, which registered a decline of 10 percent to 62 million tons. Seamless steel tubes reached figures in between with a decline of 16 percent (to 33 million tons). Incidentally, 22 million tons of this volume, in other words two thirds of world production, was accounted for by China, which in recent years has heavily expanded its seamless steel tube production capacities. In contrast, new production lines were set up for large tubes in 2009 particularly in the USA and Russia.

The world economic crisis also had a time-delayed effect on the price trend. Falling raw material costs in the first half of 2009 in connection with the increasing competitive pressure resulting from the drop in demand, led to a clear decline in prices during the course of the year. In this connection greater price fluctuations were registered on the spot markets than for those products which were marketed via long-term contracts with a more stable price trend. (Source: German Steel Tube Association / Wirtschaftsvereinigung Stahlrohre e.V.)

Clear increase in steel tube demand in 2010

With an increase in worldwide production of 13 percent to around 124 million tons in 2010, the steel tube industry was able to leave the previous year's slump behind it more quickly than expected. The remarkable aspect of this fact is that after only one year the record results of 2007 und 2008 were attained once again. A large part in this development was once again played by the Chinese steel tube manufacturers. With an increase in production of 9.5 percent to 58 million tons in 2010 they reached a world market share of 46 percent. In the rest of the world, compared to 2009, production even increased by as much as 17 percent to 67 million tons. This strong growth in percentage terms should, however, not disguise the

fact that this was, after all, clearly below the record value of the boom year 2008 (almost 80 million tons).

Compared to 2009, all tube segments were able to increase in 2010, even if at varying rates. The highest growth was registered by the seamless steel tubes segment with a worldwide production increase of 19 percent to around 39 million tons. The recovery in demand for small welded tubes (up to 406-millimetre external diameter) and large welded tubes was smaller, with increases of 11 percent for both. With well over 60 million tons, the small welded pipes and tubes market segment was by far the largest product sector ahead of seamless tubes with around 39 million tons. The driving force behind this trend was once again the energy sector, which as a result of the renewed increase in oil prices, ensured increased investments. The increased demand from the automobile manufacturing sector coupled with the recovery in the mechanical engineering sector later in the year, contributed to growth.

At around 13 million tons, the European steel tube manufacturers achieved an increase of 13 percent in 2010 compared to the previous year, which corresponded to the average worldwide growth rate. In terms of percentages the increase in production output by the German manufacturers was somewhat lower. Here, in 2010, an increase in production of 10 percent to just over 3 million tons was registered. In this connection, it must admittedly be taken into account that the German steel tube industry had emerged from the crisis year 2009 in a better state overall than other European producers due to the good employment situation in the large tube manufacturing sector.

Increased raw materials costs with a dampening effect on profits

Although the pick-up in demand for steel tubes in the course of last year ensured an increase in production volume, it did not however mean equally sparkling profits. Because in the wake of the worldwide economic recovery, in 2010 the steel tube sector had in some cases to contend with considerable price increases in raw materials for steel production. The price increases particularly in ore and coking coal had an adverse effect on the

margins, especially on the orders concluded the previous year at fixed prices. In most cases it was only through new orders that the companies were able to succeed in taking these cost increases into account in their prices. Just like the steel industry in general, the steel pipe and tube industry has stated that it is currently confronted with extreme price volatility in tube-production raw materials resulting in new challenges for the sector.

The overall improvement in the market situation compared to 2009 should therefore not disguise the fact that the industry was once again confronted with many difficulties in 2010. In this context cancelled or postponed projects had resulted in an occasional lack of orders. In Germany the resulting gaps in employment were in many cases bridged with the help of short-time working. In this country the sectors mainly affected by this were large spiral-seam welded tubes and high-frequency inductive (HFI) welded tubes.

The fact that the incoming order volume for one German manufacturer in the large tube sector almost doubled in 2010 compared to the previous year, was particularly due to the acquisition of two major pipeline orders. In this connection, the Mülheim-based large tube manufacturer Europipe GmbH (a joint venture between Salzgitter Mannesmann GmbH and the AG of Dillinger Hüttenwerke) won the order for the Nord Stream II and North European Gas pipeline (NEL) projects.

Once again in future the success of the steel tube manufacturers will be closely linked with the development of their customer sectors. Tube producers for the automobile industry and mechanical engineering sectors are directly dependent on the economic situation in these areas. In contrast, the business of the tube manufacturers, whose products are designed for infra-structure projects, has a late-cyclical character. Because the energy industry, which is behind a large part of such projects, tends to be geared to long-term changes in demand. In particular those companies, whose portfolio includes tubes for the market of grid-bound media transports, can also benefit in the long-term from the measures aimed at ensuring energy and water supply. For large tube manufacturers, the

development of the global oil and gas markets dependent on the oil price, the worldwide number of active bore holes, the total length of exploration drilling installations as well as the demand for OCTG products (Oil Country Tubular Goods), are all part of the future indicators.

Increasing demand for steel tubes also in future

Forecasts are among others based on the assumption that the economic dynamism of the world economy will probably decline somewhat overall, but that the basic upward trend will continue. The upturn will also take place on a regional level with varying intensity and speed. In this connection, the economic recovery in the industrial countries could expect to be curbed by the high national debts and impending financial reforms. In the threshold and developing countries in contrast, powerful growth is once again expected. For the steel tube industry this is resulting in a clearly more positive real-economy environment worldwide compared to the more recent past.

Against this background, it is assumed within the industry that, despite the continuing financial-economic risks in 2011, demand for steel tubes will increase. For China it is expected that steel tube production in that country will increase in future at a lower rate than previously and be mainly driven by the demand within China itself. Away from the Middle Kingdom the recovery process is also expected to continue, without however reaching the level of the boom years 2007 and 2008.

Rising or at least stable oil and gas prices should provide good prerequisites ensuring there is no reduction in readiness to invest on the part of the energy sector. The sector is also pinning its hopes on major pipeline projects being concluded in connection with the pipelines already under construction. To what extent power station construction can recover outside the threshold countries, is however questionable for the near future. In contrast the positive developments in the automobile industry and mechanical engineering sector, in particular, should ensure stabilization or even an increase in demand.

These developments and trends should also apply to the coming year and above and beyond 2011. In this connection the forecasts assume that outside China, even in 2012, the record level of the pre-crisis years can still not be re-attained. (Source: Salzgitter AG)

It is no forecast but a firm fact that in less than four month the tube sector will come together for its largest worldwide event. In addition to plant and machinery for tube production and processing along with services, the tubes themselves will be the focus of attention at the event. Pipeline tubes and pipes in the widest range of diameters for oil and gas pipelines right up to small injection tubes for diesel engines, oilfield and boiler pipes, precision pipes, cold-rolled tubes for the automobile manufacturing and mechanical engineering sectors, construction pipes and other tube products – the entire diversity of the tube and pipe universe will come together for Tube, the International Tube and Pipe Trade Fair, held once again in Düsseldorf from 26 to 30 March 2012.

Photo: Trend in world steel tube production from 2001 to 2010

Your 2012 press contacts:

Petra Hartmann-Bresgen

Kathrin Kleophas

☎ +49 (0)211/4560-541/-544

📠 +49 (0)211/4560-87 541/-87 544

✉ HartmannP@messe-duesseldorf.de

✉ KleophasK@messe-duesseldorf.de