



Trade Policy Compendium

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Highlighting International Trade

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Dear Reader:

MetalMiner and Spend Matters continue to provide a unique twist in covering trade policy by boldly commenting on news and events with trademark flair and attitude. While mainstream news outlets pretend to be objective, we call it as we see it.

This compendium of blog posts on trade law, currency issues and the WTO, as well as risk management and total landed cost, is a window into the unparalleled editorial voice that sets MetalMiner and Spend Matters apart. We've given you a taste of our best reporting, commentary and analysis on international trade policy.

Just click on the links in the PDF version of this compendium to view all original posts online at www.agmetalminer.com and www.spendmatters.com. Feel free to leave comments on either site, or send us an email with any questions.

To kick things off, we've included a Huffington Post article on the US steel industry's tenuous relationship with China (featuring a profile of Nucor), followed by Nucor's response.

We look forward to having you join us on March 1, 2011
(<http://tinyurl.com/4jglxh3>).

Enjoy!

Lisa Reisman and Jason Busch, Editors

MetalMiner/Spend Matters

Introduction: The US Steel Industry and China

American Steel Blames China For Sagging Fortunes

BY PETER S. GOODMAN FOR THE HUFFINGTON POST

JANUARY 10, 2011

“Far too often, China is cast as the bogeyman in the American conversation, the ready explanation for seemingly every economic affliction.”



HUGER, South Carolina – Inside the dimly lit, cavernous rectangle that houses the Nucor steel mill, the workers are eager to expand their output. A mountain of scrap metal lies behind the plant, waiting to be deposited into a fire-belching furnace. Computerized equipment fills out the bare concrete floors – the gears of a well-orchestrated machine that turns molten liquid into solid construction beams and rolled coils of steel. Skilled hands motivated by a company profit-sharing agreement are keen to labor longer.

All the plant needs is one crucial element that remains in disappointingly scarce supply: orders for steel. With the American economy still weak even as it shows signs of improvement, and with much of the globe shaking off the strains of a punishing downturn, demand for this basic building block of industry remains constrained.

Yet even if the global appetite for steel soon expands, Nucor – which claims distinction as the nation’s largest steel-maker – frets it will be unfairly denied a slice of the spoils. Despite innovative manufacturing processes that make the company a seeming model of old school American ingenuity, managers say they are defenseless against what they describe as predatory competition from China, now the most prodigious steel producer on the planet.

China’s steel producers wield an arsenal of unfair advantages, Nucor complains, from an artificially undervalued currency to near-limitless state credit and free land for new factories, resulting in surplus product landing on global markets at otherwise impossibly cheap prices – sometimes less than the cost of the raw materials.

The worst part of this, fumes Nucor’s chief executive Dan DiMicco, is how little Washington does to defend American interests by forcing China to play by the rules of the global trading system.

“As long as we continue to be namby-pamby, weak-kneed negotiators, the Chinese will continue to cheat,” DiMicco declared during a recent interview. “History has shown us again and again that if you appease bad behavior, you get more of it, not less of it, and it can lead to something catastrophic. Our very existence gets threatened.”

Nucor is merely one voice (albeit a particularly strident one) in a swelling chorus of complaints from American business interests claiming grievous injury at the hands of unfair Chinese competitors. Much like manufacturers from the textile trade to the paper business, American steel producers have been demanding that the Obama administration take a harder line with China. They want the White House to slap protective tariffs on Chinese steel while branding Beijing guilty of manipulating the value of its currency, which they argue keeps Chinese-made products priced unfairly low on world markets.

Many economists concur China’s undervalued currency is a serious problem for the global economy, tilting too much trade toward its shores. President Obama plans to discuss the issue with China’s President, Hu Jintao, when the two leaders meet in a widely anticipated summit

at the White House next week. Yet most experts caution that outright trade hostilities are an invitation for trouble: As the global economy struggles to regain momentum, the last thing it needs is another restraint on commerce.

“A path of destructive responses would not only damage the Sino-US relationship but would also disrupt commerce on a global scale,” concluded a recent working paper by Gary C. Hufbauer and Jared C. Woollacott released by the Peterson Institute for International Economics in Washington.

Nucor scoffs at such words.

“People say, 'Oh, you're going to start a trade war with China, what are you, crazy?'" said Giff Daughtridge, general manager of the Nucor Steel Berkeley complex, the cluster of hulking buildings here in South Carolina's low country, some 25 miles north of Charleston. “No, we're in a war. We've just chosen not to fight back. The trade war's on. We're getting our ass kicked.”

Blaming China

Throughout much of American manufacturing, such sentiments amount to a running soundtrack, as if the United States and China are locked in a zero-sum game in which every advancement in Chinese living standards comes at the direct expense of another meal removed from an American table.

Much of this talk is overheated nonsense motivated more by political convenience and emotion than analytical integrity. Far too often, China is cast as the bogeyman in the American conversation, the ready explanation for seemingly every economic affliction.

American workers are earning too little, assert unions, because exploited Chinese workers undercut their bargaining power. Unemployment is near double digits because jobs have been sent to China. The traditional middle class American bargain – hard work, rewarded with security and comfort – has broken down because China has stolen our prosperity.

Shameless opportunism fuels this rhetoric, as politicians use China to divert attention from the many home-cooked causes of declining American fortune: an unwillingness to tax wealthy people or regulate an often-predatory financial system, for openers.

Not inclined to shoulder the blame for how American wages have failed to keep pace with the spiraling costs of health care, education and housing, and unwilling to champion the investments required to nurture new industries that could generate paychecks, the political class instead outsources culpability. It blames China.

Interest groups such as the textile lobby have played a crucial role in this misinformation campaign. Americans could impose crushing tariffs on Chinese apparel right now, and Beijing could sharply increase the value of its currency, and Americans would still not be making t-shirts in the Carolinas. That business is gone, long since captured by locales where labor comes cheaper. If we didn't buy such basic goods from China, we would buy them instead from India, Vietnam or Guatemala.

The Blame China story also fails to account for the reality that American firms and American workers capture much of the value of a trade relationship that seems lopsided when viewed

through the narrow lens of bilateral deficits. American imports from China outstripped exports to China by \$25 billion in October, according to the Commerce Department. But this deficit – the number that captures headlines – counts a laptop computer assembled in a factory in the southern Chinese boomtown of Shenzhen and shipped to a mall in Los Angeles as entirely Chinese-produced. The full value of the finished machine lands in the books as a Chinese export, without reflecting the American labor that went into designing the machine, the computer chip that runs it and the royalties that accrue to patent holders. And never mind the assorted services connected to that profit stream, from accounting to legal to marketing.

The Case For American Steel

At first blush, steel seems a different proposition. It is capital intensive – a process governed by expensive machines and huge volumes of raw material. The cost of labor is a much smaller piece of the product than in, say, a piece of ordinary furniture or a shirt.

Steel is a core American industry, one crucial for realizing a host of other aims, from revitalizing the Rust Belt to encouraging the development of renewable energy. Wind turbines are huge, heavy and costly to ship, making their manufacture an ideal potential source of jobs for workers close to the Great Plains (known as the Saudi Arabia of Wind). But making them requires raw materials and machine shops that can deliver the piece parts. In a word, you need a steel industry.

In the broadest sense, steel is part of what is needed to bring the American economy back from its credit-induced flight to Neverland, in which the best minds stopped focusing on producing goods and services of real value and instead churned out bogus financial innovations like credit default swaps. Steel is real. It can be folded into making things that are useful, undergirding job creation in industries that will hold up longer than the next investment frenzy.

According to the basic tenets of free trade, every country is supposed to focus on what it does best and most efficiently – pursuing its comparative advantage, in economic parlance – and then trade with other countries for the goods they are best suited to produce. This is the doctrine that has, at least rhetorically, informed successive American administrations as free trade agreements have been forged, from the creation of the North American Free Trade Agreement in the mid-1990s to the inclusion of China into the World Trade Organization.

Steel seems to challenge the supposed promises of free trade. Making steel seems very much part of the American comparative advantage, given the country's stocks of energy and its ample ports with access to the raw materials of the world. Innovation has allowed American steel-makers to churn out higher-quality products at relatively low cost. Yet the domestic industry has suffered, losing sales to overseas competitors with stronger government backing.

Since 2000, the American share of global steel production has roughly been cut in half, dropping from 12 percent to less six percent last year, according to the World Steel Association. Over the same time period, China's share of global production has tripled from 15 percent to 45 percent.

China's leaders have long designated steel a core strategic industry vital to the country's increasing industrialization, a key part of the effort to nurture a national auto industry and a host of related enterprises, from petrochemicals to glass. In addition to gaining access to state credit and land, China's largest steel companies have been guaranteed supplies of raw materials, such as iron ore and energy, at subsidized prices.

In Washington, successive presidential administrations have threatened to impose stiffened trade penalties on China absent less interventionist policies, but have – with a few notable exceptions – mostly backed down after gaining only the promise of dialogue with Beijing.

The American relationship with China is complex and multifaceted. Other considerations, such as the need to win Beijing's support at the U.N. Security Council for sanctions against North Korea or Iran, typically trump trade concerns.

The White House declined requests to discuss its approach to China's steel industry. The U.S. Trade Representative also declined requests for a briefing, releasing only a written statement.

“We are working closely with the U.S. steel industry, steel workers' representatives and other manufacturing interests in the United States to address concerns about Chinese unfair trade practices,” said the statement. “China has grown to be the largest steel producing and consuming economy in the world. While growth in steel production and consumption is natural as China develops, we are concerned that the high degree of Chinese government involvement in the largely state-owned steel industry has contributed to the development of excess steel capacity in China.”

The U.S. Trade Representative rejected the suggestion that it has failed to enforce trade laws, noting that it has, over the last two years alone, curbed imports of five Chinese steel products that have been dumped at below cost in the American market.

Nucor characterizes those measures as helpful but inadequate given the magnitude of the challenge. It demands immediate punitive tariffs on Chinese steel products reaching as high as 40 percent. Never mind the niceties of the international trade regime.

“We've got a failed trade policy,” declared DiMicco, the company's chief executive.

Burly, plain-spoken and intense, DiMicco seems more like the sort of guy you might encounter at a bar, asking you to pass the peanuts while bemoaning globalization, than the head of a corporation worth \$14 billion with some 20,000 employees scattered around the world. Lately, he has been training his invective on President Obama.

“The crisis of his day was jobs, and he's failed miserably,” DiMicco said.

In Washington, momentum appears to be building for a more aggressive posture toward China on trade. In late September, the House overwhelmingly passed a bill that expands the Obama administration's authority to impose tariffs on Chinese goods if Beijing does not allow its currency, the yuan, to float freely.

In December, the U.S. Trade Representative accepted a petition filed by the Steelworkers union alleging that China subsidizes crucial areas of manufacturing that are capturing outsized shares of key emerging markets for wind turbines, solar panels and other piece parts of the renewable energy realm. The administration said it would initiate formal consultations with Chinese counterparts at the World Trade Organization.

Some economists dismiss the claims of American steel-makers as meritless.

China has produced about 600 million tons of steel this year, while consuming nearly 95 percent domestically, according to Arthur Kroeber, managing director of GaveKal Dragonomics,

an economic research consultancy based in Beijing. Its exports generally landed in lower-income countries in which Chinese construction firms have gained contracts.

“It’s pretty much the same with all these trade disputes,” Kroeber said. “If you’re producing a low-value, commodity product, the Chinese will beat you. That’s not unfair competition, that’s comparative advantage.”

Such characterizations provoke beleaguered sighs from DiMicco. Yes, he says, China may only be exporting five or ten percent of its steel production, but even that fraction amounts to roughly three-fourths of all the steel produced in the United States last year, about 80 million tons.

“Ten percent of China’s production can destroy most any market in the world,” he said.

Innovation In Steel Country

The very fact that Nucor’s activities here – in a pine-dotted, lonely stretch of South Carolina’s Low Country – are linked to decision made in the nation’s capital, and to the policies of China’s government in Beijing, underscores the globalized reality of commerce.

The 900 people who clock in and earn their living making steel here are part of an enterprise that must take heed of a host of disparate and geographically remote factors: the demand for new housing in Las Vegas and the real estate boom in urban China; the cost of iron ore in Brazil and Australia; the availability of giant freight vessels forged in shipyards in South Korea, Japan and Vietnam.

Nucor’s prospects depend not only on its ability to react to changes in the global appetite for its product in fluctuations in the prices for raw materials, but also to constantly improve its process to become more efficient, keeping up with evolving technology in use throughout the industry.

While the concept of innovation may conjure thoughts of people in lab coats developing bioengineered pharmaceuticals or figuring out ways to move more data through strands of fiber optics cable, Nucor is a prime example of how innovation courses through much older, established industries as well, holding the potential for expansion and job growth.

The Nucor complex here – the largest of its 20 American mills – uses a technology known as an electric arc furnace to melt down scraps of recycled metals and shape the resulting molten stew into commercially useful steel products. In its broad outlines, it is as simple as a school science project. In its execution, it is as complex as a military exercise, with success dependent upon getting all the pieces to work together.

The metal sits piled up in the yard: shredded pieces of crumpled auto bodies, discarded cases of old refrigerators. Mechanized claws drop fresh piles into the furnace where heat reaching 3,000 degrees melts the material into a bubbling molten stream. It flows like water through a series of chambers, where workers test it for the desired chemical properties and add metals and chemicals to bring to the desired composition and consistency.

Then on the stream flows to the divergence point, with one branch going off to the line that makes construction beams and the other to a series of machines that spread it out, roll it to the desired thickness and curl it into coils that reach up to 30,000 feet long.

The resulting products are trucked and railed off to end users far and wide – the construction beams to warehouses across the southern United States, the coils to a BMW factory in South Carolina and to a stamping plant that shapes it into the bodies for John Deere tractors.

Doing all of this well is much less about following a recipe than it is about adjusting to changes in real time. Given that the key raw material, scrap metal, has variation in its basic components, so does the resulting molten potion, requiring constant tweaks to the process – altering the speed and force of the machinery, adding chemicals to the mix – to yield the desired end products.

“Everybody in the world has access to this equipment,” said Daughtridge, the plant general manager. “The difference is handling and cost management and the folks we’ve got. Every now and then you see a home run, but it’s a thousand little things that make us more effective.”

Innovation can be small yet meaningful – taking coils just off the line and depositing them on the mill floor, letting them cool from their initial temperature of 1600 degrees and doubling as a heating source to save on fuel bills.

Innovation is in the cameras that Nucor recently added to scan the surface of finished coils of steel, beaming the pictures to quality control agents who scour them for defects, locating more problems before the product goes out the door. Now, Nucor can locate the defective patch and snip it off and sell the rest of the coil, whereas before, the whole thing went back in the melt.

But lately, all this tinkering and innovation has failed to yield profit. In December, Nucor warned investors to expect a loss over the last three months of 2010, calling that period “the most challenging quarter of the year,” given the continued weakness of American construction.

Nucor has drawn praise in the corporate management world for an incentive system that shares profits with workers and has meant far less to distribute in recent years. The plant was running at about three-fourths of its capacity last year and has not been going full tilt since 2008.

It has avoided layoffs by sharing the pain, with the average paycheck down roughly 40 percent compared to 2006, back when an ultimately disastrous real estate boom required more construction beams than could be made here.

Now, lost wages cycle through the community, depriving the next household of income. “You’re not going to run out and buy a car right now,” said Kevin Kelley, 37, who has worked here for 13 years, overseeing a bank of computer screens that control the thickness of the construction beams sliding down the line.

A father of four, he and his wife dropped their membership at a pool club last summer. They have eliminated cable television.

“We get paid to produce,” he said. “If the orders aren’t there, it hits us right in the paycheck.” Ask workers here why things have gone so badly, and China swiftly enters the conversation, along with demands for a tougher line from Washington.

“We’re not going to just lie down and let foreign imports come in,” said Rickey Barrineau, another worker. “We have to fight that all the time. If we don’t stay on top of that, we’re slitting our own throats.”

But the reality is far more complicated. If China captures some orders with its built-in cost advantage courtesy of its undervalued currency, the pool of orders itself has also shrunk significantly because of basic economic weakness.

Pressuring China may make for good politics, but it fails as a job-creation strategy while diverting attention from the one that might succeed: directing government finance at large-scale public work projects.

Andrew Fletcher, who oversees sales of beams, largely dismisses foreign competition as a reason for Nucor's lean times.

"It's more lack of demand than it is China," he said.

Even a swift resumption of orders would not produce jobs here, though it would restore lost wages. Nucor's very efficiency is an outgrowth of its ability to eliminate humans from the process of turning scrap metal into steel, as a tour of the complex makes clear.

Slabs of metal glow red-hot, sliding their way across the concrete floor as if levitating, watched mainly by men tucked away in so-called pulpits above the floor. They control the machinery that does most of the work. You occasionally bump into the odd man who walks the floor to look for trouble, but it feels almost spooky, like encountering a pedestrian on an abandoned urban block.

This is the simple truth of the challenge bearing down not just on the American steel industry, but manufacturing in general: The factories have not disappeared so much as the people who used to work inside them.

More than a decade ago, Jeff Powers, who oversees the melt shop here at Nucor, worked for a competing steel mill in Cleveland. That plant needed 4,000 employees to produce about four million tons of steel per year. The plant here can produce just under that amount, with less than a quarter of the people.

In the end, the incessant focus on China as the explanation for what ails steel country and the broader economy seems counterproductive, setting up the largely unrealizable expectation that a stiffened American trade posture can bring back paychecks.

Blaming China. Here is a pastime that may produce therapeutic relief for those seeking explanation for their troubles, but it is no curative. Even in a global economy, the American factory crisis – no easy problem to solve – is best attacked at home, with policies that boost demand for goods. ■

Manufacturing: Making Things in America for Global Trade

BY PATRICK MCFADDEN, GM - NUCOR PUBLIC AFFAIRS

JANUARY 24, 2011

“When trade hurricanes continue to bear down without a break in the weather, there's a limit to what we can accomplish without changing the underlying patterns.”



In 2003, Hurricane Isabel tore through eastern North Carolina, causing more than \$3.6 billion in damage. At the time, I was working in our plate mill, then in Hertford County, NC. I had called our general manager, Giff Daughtridge, after the storm subsided to ask him the status of the plant. He said trees had fallen everywhere and it would take the county two weeks to open River Road, a six-mile, two-lane stretch that dead-ends at the Nucor plant. He told me we could not get into the site, despite a group of teammates in the plant working their way out. “Do you have a chain saw?” he asked me. “I do,” I replied. He said, “Better bring it. Come by and get me and we’ll go together and cut our way in.” And we did... all day, with a whole crew of Nucor team members.

When I read Peter Goodman’s story about the steel industry and Nucor, I cringed. To think the U.S. steel industry, or Nucor in particular, simply blames China for its sagging fortunes greatly distorts reality. Nucor is not a culture of complaint. Nucor is a culture of action. We see problems, identify their root cause, and then implement solutions. We won’t let fallen trees keep us from making steel. Nor will we accept mercantilist governments damaging American’s manufacturing sector.

Nucor and the U.S. steel industry are hardly alone in their concern about Chinese trade practices. In widely reported comments from a speech in Rome last summer, General Electric Chairman & CEO Jeffery Immelt stated that China was increasingly hostile toward foreign multinationals and showing growing protectionist tendencies. It has also been reported that executives of BASF SE and Siemens AG in a meeting with Chinese Premier Wen Jiabao criticized rules that require foreign companies to transfer valuable intellectual property to Chinese companies in order to gain access to their market.

We have been talking about the dangers of China’s trade practices and the impact on all of American manufacturing for 10 years, well before the recession and during some of the most profitable years in our company’s history. We view China’s currency policy and trade practices as a long-term threat to our country. But the trade issues are just one piece of a much bigger pie. The pie also includes the need to create and legislate a U.S. manufacturing turnaround strategy. Elements of this strategy include better trade enforcement, infrastructure investment and a comprehensive plan to develop domestic energy resources.

With regard to American manufacturers’ views of Chinese trade practices, Mr. Goodman asserts, “Much of this talk is overheated nonsense motivated more by political convenience and emotion than analytical integrity.” We find that claim difficult to substantiate. There is a great deal of data and facts readily available from institutions as varied as the Federal Reserve Bank, which examined China currency pegs going back to 1981-1989, 1990-1999 and 2000 to Jan 7 of this year, to industry experts providing the facts behind the United States’ steel trade deficit.

It’s important to note that the U.S. should not singularly call out China for undervaluing its currency. In fact, many countries undervalue their currencies, including India, Malaysia,

Thailand, Taiwan, Korea, Brazil and Mexico, among others. But certainly, China serves as the proverbial 800-pound gorilla. It has amassed its trade account surplus by undervaluing its currency and providing a broad range of subsidies to targeted industries.

Take steel. With many products, China has the production advantage because of low labor costs. But steelmaking is not labor intensive. Steelmaking is energy and raw material intensive, and America has some of the lowest cost energy and raw materials on the planet. China has to import both, increasing its costs. The U.S. is the low cost producer, but China gains a cost advantage by heavily subsidizing the cost of energy and manipulating its currency. That is not a free market and it is not the terms China agreed to abide by when it joined the World Trade Organization (WTO).

This kind of intervention in the market goes against the theory of comparative advantage: the idea that the benefits of trade emerge when each nation exports what it does best. Providing subsidies to capital-intensive industries results in China exporting both products warranted by its comparative advantage – the ubiquitous t-shirts – and products where it does not have this advantage like steel and solar panels. The result? A huge trade deficit with China, something in the neighborhood of \$250 billion, after accounting for all the technology and machinery the United States sells China, as noted by Mr. Goodman.

Chinese currency manipulation, subsidies and other predatory trade practices impact demand in our country and contribute to U.S. job losses. When dollars leave our country to buy imports and do not return to purchase U.S. products, and if Americans only spend what they earn, demand for what Americans make becomes insufficient to maintain full employment. Either Americans must borrow to live beyond their means, as we did during the bubble to sustain full employment, or the government must run huge deficits, as it is doing now, to keep the country going.

Now, I need speak to Mr. Goodman's description of our CEO, Dan DiMicco, as "... more the sort of guy you might encounter at a bar, asking you to pass the peanuts while bemoaning globalization, than the head of a corporation worth \$14 billion with some 20,000 employees scattered around the world."

Mr. Goodman got part of it right: Dan DiMicco is an ordinary guy. But Dan DiMicco is also an extraordinary thinker. Do you want to know his latest idea? It is to allow multinationals to expatriate profits to the U.S. tax-free, considering profits have already been taxed once. The money that comes back, however, would go into infrastructure bonds, where the government would use it to repair America's crumbling infrastructure. Each \$1 billion spent on infrastructure creates 35,000 jobs. Then over time, the multinationals would be able to draw that money back after the economy has recovered and the government has recouped the cash in tax revenue.

This is a great idea, and one Dan is sharing with everyone he can. It would allow us to fix our aging infrastructure, put Americans back to work, and enable our multinational corporations to bring their money back home. So I was surprised when I did not see it in the article. And I'm left confused as to how this idea reconciles with "bemoaning globalization" over peanuts in a bar.

Some people don't believe the problems of currency manipulation and the U.S. trade deficit can be solved. That's an attitude we at Nucor can't comprehend. We believe every problem has a solution. That's our culture. That's why we grabbed chainsaws and cut a path to our mill after

Hurricane Isabel instead of waiting around two weeks for someone else to show up. We don't think that kind of initiative is limited to just Nucor; it is American exceptionalism in action.

In today's global marketplace, Nucor and other U.S. manufacturers have no shortage of chainsaws, let alone motivated and skilled men and women to cut through the wreckage of past storms. But when trade hurricanes continue to bear down without a break in the weather, there's a limit to what we can accomplish without changing the underlying patterns. It's time for our country to step up and respond to the relentless and intentionally engineered trade distortions being employed by China and other countries, before we lose our entire manufacturing base. That's not a complaint. That's an expectation that our American government demand mutuality in our trade relationships. That expectation is firmly based on the belief that America needs to make and build things to fuel our economy, and that what is good for America will also be good for Nucor and our team members. ■

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Part 1: International Trade Forum – Breaking Point

The Currency Wars

House Passes Currency Reform Measure – Will It Impact Manufacturing?

BY LISA REISMAN

SEPTEMBER 30, 2010

“The real solution to the problem of ‘the trade wars’ involves a simple principle – we can only control that which we can control.”

Yesterday, the House passed (by a 348–71 margin) a bill that would allow the Department of Commerce to levy anti-dumping duties on goods coming from countries that undervalue their currencies. The bill does not single out China, per se; rather, it singles out any country with an undervalued currency.

Will this bill pass both chambers of Congress and receive the signature of our president? Probably not, but the bill does give Democrats some leverage as they head home to fight for re-election; they have taken a tough position on jobs and trade. So what should the manufacturing community make of this bill and what are America's larger prospects from an international trade perspective?

The reality – that this bill represents a stick that has previously not seen the light of day – could have some powerful ramifications for countries like China because it's the first time a bill on this subject has passed an entire House of Congress. In other words, it may very well have the likely effect of placing additional pressure on China, precisely the bill's intent. Will the US Treasury Department and the wider Obama Administration use this bill as a means to place that additional pressure on the Chinese authorities? We don't know; perhaps not.

Today, China does not abide by a host of WTO rules (e.g. subsidies, intellectual property violations and the list goes on) but the US has also violated WTO rules as well (see this post on the practice of zeroing, <http://tinyurl.com/4v7vq67>). But on balance, the US probably adheres to WTO rules more so than the Chinese. As you will recall from a couple of weeks ago, a 5000-page petition (<http://tinyurl.com/4vu285w>) recently filed by the USW outlines many infractions incurred by China (some of which probably have greater validity than others).

Would this bill, if passed, receive the blessing of the WTO? Probably not, but anyway, one might consider that point irrelevant. What does matter involves the fundamental question – does China (and any other country that fixes its currencies arbitrarily) continue to violate the principles laid out in its membership application to the WTO? And do they have the right to continue operating as they have? Certainly some manufacturers such as GE and Baxter International would say yes (these organizations also have large manufacturing operations in many of the countries in question) but others argue that the real solution to the problem of “the trade wars” involves a simple principle – we can only control that which we can control.

We thought we’d suggest a couple of What-If scenarios on the topic of trade. We know this remains a divisive issue for which many MetalMiner readers hold oppositional points of view...

First, in the words of Robert Samuelson in a recent Washington Post op-ed piece entitled, “The makings of a trade war with China” (<http://tinyurl.com/27ywor4>), he provides one What-If scenario. What is the US’s choice: “resist Chinese ambitions and risk a trade war in which everyone loses; or do nothing and let China remake the trading system. The first would be dangerous; the second, potentially disastrous.”

Second, back to the ‘we should pursue only that which we can actually control – our own behavior’ line of thought. This thinking suggests the problem lies in our own making – our own dollar has a low valuation because our deficit remains so high. We have lost control of our own government spending and have taken the path of further taxing the top 2-3 percent of the population that actually stimulates growth and creates jobs. If we had our own house in order, the thinking goes, what countries like China do with their currency would have a much smaller impact on our own economy. ■

Messing With The WTO: Why Is It So Hard To Follow The Rules? Wind Power and Solar Panel Jobs to Go the Same Way as Textiles and Steel?

BY STUART BURNS
SEPTEMBER 10, 2010

“Green tech is just another area in which, ultimately, the West cannot compete in a fair and open global marketplace.”

A Bloomberg Businessweek article (<http://tinyurl.com/2dz3jwp>) earlier this year outlined the rapid rate at which western wind turbine makers such as GE of the US, Vestas of Denmark and Siemens of Germany are losing out to domestic manufacturers in China’s fast growing domestic market and the steps they are trying to take to keep ahead of the game.

Buoyed by \$47 billion in stimulus spending for environmentally friendly power, the article states China installed more than double the number of wind turbines in 2009 than in the previous year. This year, the country plans to add 18 GW of wind capacity, the equivalent of 15 nuclear power plants. That’s double what’s expected in the US, the No. 2 market, according to estimates from New Energy Finance. By comparison, Germany and Spain, Europe’s largest wind energy markets, will add just 1.8 GW and 1 GW respectively in 2010. Chinese turbine producers are much cheaper – roughly two thirds of the price (MW for MW) according to a Reuters article (<http://tinyurl.com/4c478uf>) – but western producers are trying to keep one step ahead by using more advanced technology that results in more reliable and larger turbines. Siemens plans to open a new \$80 million factory this year in Shanghai that can produce 3.6 MW turbines. But with every step forward by western producers, Chinese manufacturers are right behind them.

When technology proves a hurdle, they simply import components such as electrical control systems for the first few models until they have mastered the technology. Meanwhile, Chinese producers in a whole range of clean tech energy areas are building critical mass on the back of their domestic market before gradually expanding into exports. Before wind power was solar panels, a surge in Chinese exports of which caused a collapse in world prices last year and the closure of many western producers.

So goes the way of manufacturing, you may say, in a long litany of industries that have closed or been dramatically scaled back as manufacturing has moved to China. Green tech is just another area in which ultimately the West cannot compete in a fair and open global marketplace. Well, not so, says an article in the New York Times (<http://tinyurl.com/47ra5o3>). What China has done in solar energy and is doing in wind power blatantly breaks WTO rules and should be called to account. Building its argument by detailing the development of one Chinese producer as an example of all, the New York Times argues that a whole range of subsidies to solar panel manufacturers risks breaking international agreed-upon rules and the agreement China signed up to when it negotiated its entry to the WTO in 2001.

Hunan Sunzone Optoelectronics, a start-up manufacturer of solar panels just two years ago, ships close to 95 percent of its output to Europe. Next year it will have offices in New York, Chicago and Los Angeles in preparation for a push into the American market. The article states that to help Sunzone, the municipal government transferred to the company 22 acres of valuable urban land close to downtown at one third of the market price. That reduced the company's costs and greatly increased its worth and attractiveness to investors. Meanwhile, a state bank is preparing to lend to the company at a low interest rate to help Sunzone double its production capacity, and the provincial government is sweetening the deal by reimbursing the company for half of the interest payments. Rather than being the exception, heavily subsidized land and loans for an exporter like Sunzone are the rule, for clean energy businesses across China, Chinese executives said in interviews to the paper over the last three months.

Such subsidy is clearly in breach of WTO rules that allow countries to subsidize goods and services in their home markets, as long as those subsidies do not discriminate against imports. But the rules prohibit export subsidies, precisely to prevent what Sunzone is receiving – government help to gain in world markets. Under WTO rules, countries are required to declare all national, state and local subsidies every two years. So that if one country's exports surge suspiciously, other countries' trade officials can easily check to see if that product is being subsidized. But China has apparently ignored the requirement since joining the WTO. Instead, they contend that it is still a developing country struggling to understand its commitments. China has filed just one list of subsidies, which were in place between 2001 and 2004, and that one list covered only central government policies while omitting local or provincial subsidies. ■

Obama and Hu Jintao Play Nice, Avoid Hard Trade Policy Talk

BY TARAS BEREZOWSKY

JANUARY 24, 2011

Not to sound too haughty, but we told you so.

(Admittedly, most observers agreed with us, so it's not like we were alone. Read our previous post on this issue here, <http://tinyurl.com/4l75vsg>.)

“So is it a case of not wanting to rock the boat, as China continues to be our largest debt-buyer? How can we confront these issues in an effective manner?”

What we mean is that we totally saw how the “dog-and-pony show” that was the State Dinner for Hu Jintao would play out before the Chinese president even touched down in DC. The meeting, eating, and surrounding talks weren’t much more than artifice, with both presidents Obama and Hu being polite to each other, and like a courting couple – or, perhaps more aptly, like a couple that had already jumped in bed together and is now trying to gingerly figure things out the morning after – only lightly touched on the real meat-and-potatoes issues rather than digging into them.

Even though I littered that last paragraph with all sorts of clichés, it’s hard not to see meetings like this for what they are – a politically necessary yet overall unsatisfying maneuver.

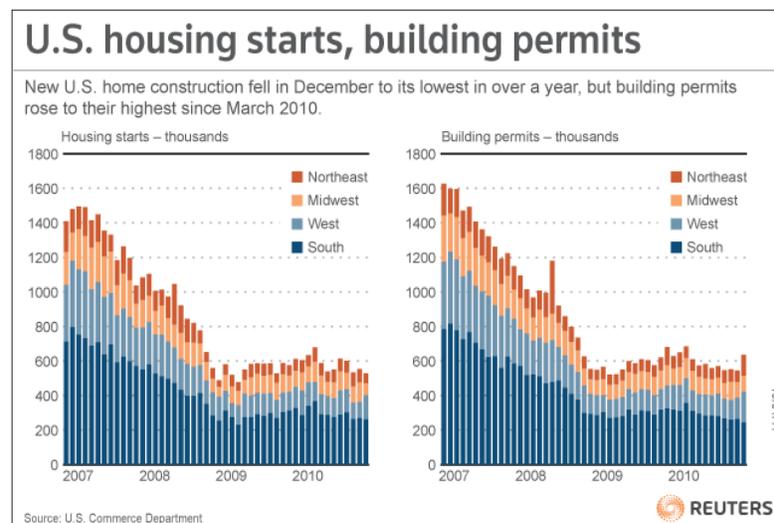
For example, at the same time that Beijing was announcing growth figures that exceeded nearly everyone’s expectations – China’s GDP rose 10.3 percent in December, almost certainly overtaking Japan as the world’s No. 2 economy – President Obama was avoiding making waves.

“President Obama’s aides said that he pressed Mr. Hu more gently than Congressional critics did on letting China’s currency rise, noting it has gradually risen 3.5%, and more if inflation is accounted for,” the Wall Street Journal (<http://tinyurl.com/4v3genfm>) noted. “But he said that China needs to do more, needs to move faster,” said a senior aide.”

Well, gentle prodding and generalities from our political leaders will only get us so far. So what about our leaders of industry?

In what could be seen by many of the country’s manufacturers as a weak approach to a growing crisis, US corporate leaders (including the CEOs of Boeing, GE and Microsoft) who met at the White House with China’s president are reported to “have barely mentioned the yuan-dollar exchange rate,” the WSJ article mentions. Having been the main sticking point for many US manufacturers in the steel industry and other metals markets, it seems the currency issue is not being tackled boldly enough.

While politicians and industry bigwigs are playing nice and re-announcing trade deals (like the “new” multi-billion-dollar deal Boeing made with China for 200 planes – originally struck in 2007), our economy continues to be in the toilet: for example, US housing starts were the lowest last month (<http://tinyurl.com/48luwnq>) than they’ve been in over a year.



Source: Reuters

So is it a case of not wanting to rock the boat, as China continues to be our largest debt-buyer? How can we confront these issues in an effective manner?

It seems we should leave it to those who continue bridging the gap between government and business. John Frisbie, president of the U.S.-China Business Council (<http://uschina.org>), said the most important policy decision coming out of these talks was that of “delinking,” which essentially means China assuring foreign companies “that they can bid on government procurements even if the technology is not developed in China.” This appears to be a move against the “Buy China” rules that have previously derailed foreign investment in high-tech business there.

John Bussey, WSJ’s executive business editor, interviewed Henry Kissinger (<http://tinyurl.com/48rpcnd>), who summed up the last week rather acutely (and who knows firsthand about such things): “It’s a mistake to gear everything toward one meeting,” he said in the interview. “And to think that a meeting will make a seminal difference in the relationship.” Striking the timbre that we’ve hinted at in previous posts (<http://tinyurl.com/4fc9zly>), Kissinger suggests any domestic economic turnaround begins with rectifying the US’ own shortcomings. ■

Part 2: Minimizing Risk In The Global Trade Arena

Strategies To Minimize Raw Material Volatility

BY LISA REISMAN
OCTOBER 25, 2010

“Tools such as receivables insurance may also become more prevalent as companies look to reduce risk in the event that a company’s customer fails to make good on an order in which raw materials had been previously purchased.”

After having spent some time out of the office last week, the one desk activity I enjoy involves going through the mail (yes, I’m talking about the non e-stuff that we tend to collect). Most of it makes its way to the trash bin, but a story in the Institute of Supply Management’s latest magazine Inside Supply Management caught my eye with its title, “Managing Risks in Volatile Raw Materials Markets.” Always trying to pick up a trick or two, whether it comes from other industries and commodities or metals, I thought this article highlighted some interesting risk management strategies; although at the end of the day, I’m not sure how many of the strategies haven’t already been extensively deployed by metals buying organizations (<http://tinyurl.com/2e7dotw>) and/or have very limited applicability.

For example, one strategy calls for “deploying a new technology in the production process [which] can enable a manufacturer to quickly switch between alternative raw materials as prices fluctuate, freeing it from relying on a single feedstock or sole supplier.” Stainless steel product substitution represents a good example of how companies shifted from nickel-based alloys to non-nickel-based alloys, but I’d be hard-pressed to think of how a manufacturer can quickly shift from copper to, say, aluminum. The product development process within metal-intensive industries can hardly be deployed quickly or on the fly as commodity prices fluctuate. For some industries (think aerospace or automotive), the notion of deploying new technologies in the production process to quickly switch between alternative materials appears challenging at best. Other suggested strategies include “upstream risk transfer to suppliers,” which effectively limits the ability of suppliers to pass down costs. Sure, that strategy may have short-term merit, but a long-term strategy of allowing the supplier to “eat the costs” won’t help during the next rising commodity cycle.

On the other hand, the article suggests four strategies that do have merit for metals-buying organizations. These strategies include:

- Supplier specific strategies – (think indexes, or as suggested by the authors, “diversifying the supply base across regions”)
- Customer specific strategies – (think pricing strategies)
- Third-party strategies e.g. hedging (we feel this area represents quite a large opportunity for metals-buying organizations; as more and more products come to the market, these tactics, we predict, will become more pervasive in the sourcing toolkit, so to speak)
- Internal strategies – these include physical hedges (the article even discusses swaps with other manufacturers or the sharing of raw materials with other manufacturers)

Through our own consulting experiences, we have seen little if any hedging activity, likely more to do with the overall size and type of buy (for example, diversified distributor semi-finished metal spend remains a less obvious candidate for hedging). On the other hand, the growth of ETFs and, in particular, base metal ETFs, may begin to open the market for alternative hedging strategies. Tools such as receivables insurance may also become more prevalent as companies look to reduce risk in the event that a company’s customer fails to make good on an order in which raw materials had been previously purchased. We have also seen limited experimentation with swaps or strategic sharing of raw materials, though that strategy may have quite a bit of merit depending on the industry and metal in question. ■

Supplier Management and Supply Risk Management Capability and Maturity Models

BY JASON BUSCH
DECEMBER 15, 2010

“There is never a one-size-fits-all solution or series of initiatives a company should follow.”

Many companies dipping their toes (or diving head-first) into the shark-infested waters of supply risk management often ask where the best places to get started are – not to mention how to get started in them. Companies then ask about the best technology and content means of helping achieve an organization’s desired end state. Yet both answers depend entirely on where an organization sits, from a capability/maturity perspective. There is never a one-size-fits-all solution or series of initiatives a company should follow. In a recent Spend Matters Compass series whitepaper, Supply Risk Management – Segmenting the Technology and Content Landscape and Choosing the Right Category of Solutions (available for free download, <http://tinyurl.com/4eq97nt>), we offer up a basic maturity model consisting of three different levels that let procurement, finance and supply chain functions self-identify/self-nominate where they are on a maturity curve.

This basic assessment takes into account overall spend under management and centralized influence, the overall technology environment within procurement and supply chain, purchase-to-pay (P2P) systems, invoicing and accounts payable (A/P), services procurement and risk management awareness. In our experience, organizations at Level 1 display a reactive approach to risk management. Their efforts are almost always ad hoc or coordinated in response to specific events such as a supplier disruption. Companies at this phase of maturity rarely have formal supply risk processes or contingency plans in place. They respond after the fact rather than taking a proactive stance.

Companies at Level 2 begin to take proactive approaches to risk management. They anticipate risks and deploy appropriate processes and contingency planning models to minimize the impact. At this level, a specific individual or group, often purchasing or finance, is assigned ownership of supply risk and allocated appropriate resources for the task. Companies at this level often view supply risk in a broader context of supplier management and procurement challenges and opportunities.

Organizations that reach Level 3 of the Spend Matters risk/maturity model have deep cross-functional efforts and well-developed, formal approaches to managing supply risk. They segment and maintain specific resources, tools and intellectual property to apply to different circumstances and often include both top company executives and key suppliers in their risk management steering and operational efforts. Companies at this high level of sophistication/maturity treat the process of selecting supply risk management solutions as an outgrowth of significant organizational collaboration and joint functional requirements definitions.

Where are you on the supplier management and supply risk management maturity scale? What solutions are best suited to your needs as result? You can download our research on the subject (<http://tinyurl.com/4eq97nt>) as a good first step in finding out. I'd also recommend checking out the ISM risk track at the annual ISM conference this spring (<http://tinyurl.com/253ugd2>) and even attending the event, which promises to bring the best minds in supply risk management under the same conference roof at one time. ■

Part 3: Total Landed Cost Models and Global Volatility

China vs. Mexico – Where to Go for Metal Parts and Assemblies?

BY LISA REISMAN

JUNE 10, 2008

“When the delta between the Chinese and Mexican piece part price falls between 12–15% (depending on volume and parts) a total landed cost model makes a lot of sense.”

This weekend we had a chance to catch up with a partner of ours, German Dominguez, who is based out of Juarez, Mexico. Dominguez sources parts on behalf of American companies. This is Part Two of a Two-Part interview. You can read Part One here (<http://tinyurl.com/4tg4qt4>).

MetalMiner: Based on your success, it might appear as though Mexico is starting to gain the edge over China. Is that the case?

German Dominguez: Out of my personal experience, it has taken me two years to gain the trust of my supply base, so now my suppliers really work hard to try to win a new project. That 100 percent margin that they used to quote is now between 15–20 percent so that I can secure the business. Because of these relationships, the partnership, if you will, my suppliers are much more competitive than they were previously.

MM: US firms are now looking to Mexico again for quotes. It appears that there are more inquiries and quoting activities going on. What are you seeing?

GD: I do think there is more quoting activity, but I don't think that US companies can move programs quickly. Of course, wanting to move something to Mexico and actually moving



it are two totally different things. Mexican suppliers will work with American buyers, but it's important to remember that Mexican suppliers are very time-consuming and/or high maintenance, if you will, during the initial phase, whereas American buyers are not used to that kind of process. For example in the US, a company might send a RFQ to 10 domestic companies and definitely at least five will respond. The same process in Mexico will result in only 1–2 suppliers participating. You would have to really pursue and chase a Mexican supplier until they get to know you very well. A quote from a Mexican supplier might take 3–4 weeks, while a quote from China may only take 3–4 days. Eventually a Mexican supplier will forget about the RFQ if the American buyer doesn't stay on top of it. So for the initial supplier development process, the effort level appears as follows: 80% American, 20% Mexican, but that can switch over time. It takes about 1–2 years to truly gain and establish a partnership with a supplier in Mexico. But what is important to keep in mind is that US buyers have advantages over Mexican buyers because Mexican suppliers will give more attention to foreign buyers. The Mexican supplier may be interested in growing export business or doing business in USD.

MM: Do you feel that looking at total landed cost is the key to making the right award decisions between the two countries?

GD: I'm not a big believer in total landed cost. Why? Generally speaking, I see a large enough differential on the piece part price that I don't need to use a total landed cost model. However, that is changing now as we speak. When the delta between the Chinese and Mexican piece part price falls between 12–15% of each other (depending on volume and parts) a total landed cost model makes a lot of sense. But not until the prices are within that range; it's irrelevant. The issue is that the China price is changing, not Mexico.

MM: How much cheaper is Mexico-to-the-US vs. China-to-the-US from a logistics perspective? How does that make/break a deal – or does it?

GD: Mexico is not a low-cost freight country. On a kilometer-by-kilometer basis, China ships more competitively than Mexico. But because Mexico is so much closer to the US, it tricks the buyer into thinking that freight from Mexico is proportionally cheaper than freight from China. Diesel gasoline, taxes and freight rate tolls are all very expensive in Mexico. So freight may not be as big a factor as the popular media would lead one to believe! ■

Calculating Inventory Carry Costs in Total Landed Cost Models

BY LISA REISMAN

AUGUST 21, 2008

“In a global trade transaction whereby the buyer purchases on an FOB basis (for example, FOB Shanghai), one cost to include is the inventory carry while the goods are in transit to the plant.”

After MetalMiner presented a webcast (<http://tinyurl.com/4u4jcnk>) (Modeling Total Costs for Global Sourcing Programs, with Purchasing.com and Zycus, <http://zycus.com>), we received dozens of requests from listeners on how to model inventory carrying costs as part of the sourcing equation. To reiterate the point made in the webcast, one of the factors that companies tend to overlook or not include in their landed cost models relates to cost of carrying inventory. In a global trade transaction whereby the buyer purchases on an FOB basis (for example, FOB Shanghai), one cost to include is the inventory carry while the goods are in transit to the plant.

To calculate that inventory carry cost, here is a simple formula to use along with an example:
Inventory carrying cost = piece part price x (a company's cost of capital/365 days) x number of days of carry (For global sourcing use 45-60 days). Here is an example:

Example: Seating component costs \$12.81/piece FOB Shanghai. Ultimate destination: Detroit

$\$12.81 \times 6.50\%$ (company's borrowing cost) = \$0.833/annum
or $\$0.0023/\text{day} \times 60 \text{ days} = \0.138 piece

$\$0.138 \times 1660 \text{ pieces in a container} = \229.08 ■

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