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July 26, 2005

## **BASEBALL AND BEER**

At the height of the summer, it may be appropriate to consider some things going on within the worlds of baseball and beer for what they can teach us about world trade in steel.

Earlier this month, the International Olympic Committee (“IOC”) announced that baseball and softball would be dropped from the 2012 games to be held in London. The reasons given were the troubled record of professional baseball in controlling drug use (a matter of grave importance for the Olympic Games) and the absence of first line players from the competition. (Softball seems to have been dropped through guilt by association).

The response from Major League Baseball (“MLB”) was prompt. There was shock that the IOC did not recognize the (not yet adopted) changes MLB has made in its anti-doping program, which, while an improvement over the former “five strikes and you’re almost out,” still is criticized by many as too lax. And then there was the Commissioner’s assertion that it was “absurd” to suggest that MLB pause its season to let players participate in the Olympics. A few days later, MLB announced its own plan for a “World Baseball Classic,” which would be a competition among baseball-playing countries to be held during spring training in March. Several players quickly said they were not interested in what was called a “made up” event.

As for beer, it was reported that Anheuser-Busch (“Busch”) has been circulating information sheets to its distributors, at its theme parks and to its customers alleging that two of its competitors, SABMiller and Molson Coors, send most of their US profits abroad, because they are foreign-owned. There have been challenges to the Busch version of the facts (Molson Coors is a US company, traded on the NYSE and headquartered in Colorado; Busch is probably not as it claims, “95%” owned by US investors – a British bank owns over 6% all by itself). The more serious matter is what Busch’s appeal to pro-American prejudice says about its estimation of its customers. After all, Busch is expanding its foreign sales (about 1/6 of its total volume in 2004) and has, like the competitors it criticizes, bought into foreign brands (such as Corona in Mexico and Tsingtao in China). It also has agreements with Labatt in Canada, Heineken in Italy, and Guinness in Ireland. What does it say about your confidence in your product to ask people to switch from Coors or Miller because they are foreign owned?

How do the problems of baseball and beer relate to today's American steel market? First, I believe that the problems caused by international trade are not going to be cured by arrogance or appeals to patriotism. We all remember when plain shortcomings in our industry were laid at the feet of foreign competitors – it was their fault that we were often overstaffed, under modernized and woefully lacking in market discipline. The result was a very low public image of the domestic steel industry. And it is long past when we could urge our customers to “buy American” if we don't offer a first rate product at a reasonable price. We can insist that international trade be conducted fairly, but we cannot sell steel by wrapping ourselves in the flag.

Baseball and beer also tell us that the world is too complicated today for simplistic solutions. The American economy is not in good shape –our net foreign indebtedness is now equal to 25% of our GDP and will, at the present rate, reach 50% in four or five years. Sophisticated economists are challenging the traditional free trade policies of the last 60 years, pointing to a worrisome long term loss of manufacturing and high tech jobs. It appears that tectonic changes are occurring in world trade, and we are not responding with ideas and approaches that are suited to our tasks. Are we all MLB and Busch?

Some of the specifics this month:

- Scrap and Pig Iron. Prices firmed somewhat in July. Both #1 dealer bundles and #1 busheling were at \$160 mt. Scrap is now only slightly higher than it was before the drastic increases in late 2003. Meanwhile, pig iron continued to fall, dropping \$25 mt to \$225 mt for Brazilian product (spot price, New Orleans).
- Ocean Freight. The Baltic Capesize Index fell slightly to 2982, in line with the first nine months of 2003.
- Natural Gas. No relief on this important cost of production. Prices were at \$7.55 per mcf, up 75¢ from June.
- Foreign Exchange. The dollar continued to strengthen somewhat. The euro is now worth a little under \$1.20 and the British pound is a little over \$1.74. The Canadian dollar is slightly up to 82¢.
- Imports. Imports from China were up by 247% during the first four months of 2005 over the same period last year. As you know, China has been dedicating its steel production largely to domestic uses in recent years. However, a surplus of some 43 million mt is now projected for 2005. The possible effects of an overhang of this magnitude are ominous.

As usual, we are posting this letter on our website, [www.coreysteel.com](http://www.coreysteel.com) and on [www.steelonthenet.com](http://www.steelonthenet.com). Let us have your comments and suggestions.