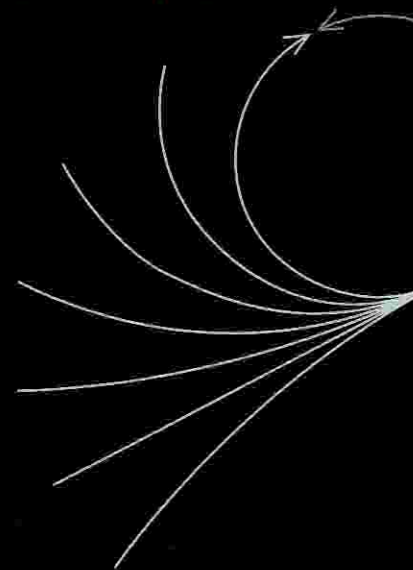


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OPINION

# Why shouldn't tinplate prices be on the rise?

Canmakers are facing much more dramatic tinplate price increases that they've seen in the past two years. Philip Rogers tries to explain why

At the beginning of the year I pointed out that the price of tinplate was going to rise further in coming months. To support this I illustrated how the selling price of tinplate had to be linked to the price of hot rolled coil (HRC), which is a world-traded commodity.

Why then is there surprise amongst canmakers that tinplate prices have to rise, and that the tin mills must be able to retain at least a semi-profitable business?

First it must be recognised that the trade in steel has changed. Many years ago the output of most hot strip mills was far in excess of what could be used by the local economy, without further processing into products such as cold rolled coil, galvanised coils or tinplate.

In those days a commitment to use 500,000 tonnes of HRC by a tin mill provided a very useful base load, and through most economic cycles tinplate remained profitable. Or was this really profitless prosperity at the expense of other parts of the industry? There was relatively limited competition in tinplate, and expansion in capacity was generally well controlled to avoid excess, so that to obtain

volume sales the steel makers were prepared to accept less than maximum profitability. Was this really a hidden subsidy to the canmakers, and hence supported cheap goods in the shops?

Today the position has changed. Demand for HRC in the world is growing so fast that it has become a commercial commodity, and various indices are available to determine a 'world' price at any given moment. This leads to the need for the steel mills to maximise profitability by allocating HRC to the most profitable products. Obviously they also have to consider maintaining profitable production at their other assets but, as ArcelorMittal has recently stated, this can be around 150,000 tonnes per year in their tin mills. The canmakers recognised this some years ago, and have rationalised their offerings, and as a result Crown and Impress both obtained price increases to match the small increases in tinplate prices as recently as January 2008.

Another factor, which makes tinplate a less favourable outlet for HRC is the high standard of quality necessary. Steel for D&I canmaking must be exceptionally

free of non-metallic inclusions (oxides and silicates). For this reason the yield of slab (the precursor to HRC) when making steel for this application is as low as 60 percent. Although the other 40 percent can be used for other prime applications, this incurs extra costs in segregation and reapplication of the slabs. Tinplate also requires HRC to be rolled to about 2.5 mm, and generally narrower than 1,000 mm wide – thinner and narrower than most applications – so this carries additional cost implications.

If the price of HRC in the US domestic market is compared with the spot price of tinplate, it is easy to see how the profitability margin of tinplate has been squeezed. Throughout 2006 and 2007 the price of tinplate in US was relatively constant, while the price of HRC followed the normal seasonal pattern. The margin for conversion cost was up to \$450, but this has narrowed dramatically in 2008.

Of course the increase in price of HRC is not only a result of increasing demand, indeed the view of US manufacturing and building industries is indicating a recession rather than boom. However, the increased costs faced by the steel makers for iron ore, coal and energy (all world commodities) have forced the price increases.

Clearly there has been a significant change in sales tactics by the steel makers. No longer are they prepared to "negotiate" on prices, but faced with increases that threaten to destroy the industry, they have had to become much more demanding.

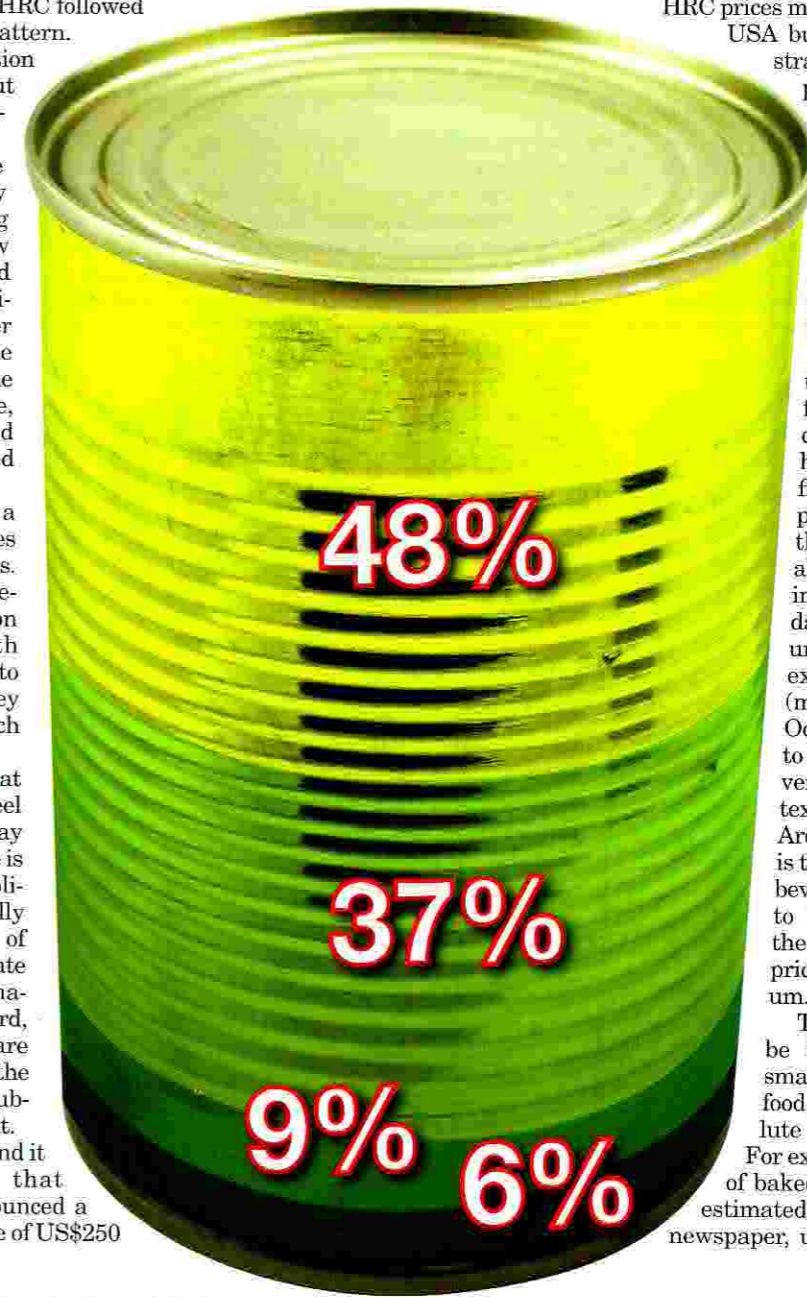
Then users realised that if they want to obtain steel products they have to pay the price asked, and there is no way of changing suppliers because all are equally hit by rising costs. It is of some comfort to the tinplate users that prices of alternative materials such as board, plastics and aluminium are also rising, influenced by the rising energy costs, so substitution is less of a threat.

Against this background it is hardly surprising that ArcelorMittal USA announced a price increase for tinplate of US\$250

## What makes up the retail price of a food can?

- Wholesaler / retailer: 48 percent
- Packer / filler: 37 percent
- Conversion cost by canmaker: 9 percent
- Raw materials – tinplate, lacquers compound: 6 percent

The price of a can of baked beans in UK supermarkets has risen 28 percent from 43p to 55p between 2004 and 2008, and canmakers have successfully retained their margins within the 9 percent conversion cost of making cans that contributes to the retail price



per tonne from 1 July, restoring the conversion margin.

In Europe the picture is similar with ArcelorMittal announcing an increase on tinplate of 160 euros from 1 July. Rasselstein has warned of difficulty in obtaining supplies of HRC at low enough prices to enable it to operate profitably. Corus has warned of a 30 percent price increase from January 2009, with a further unspecified increase from April.

Earlier showed the link between HRC prices and tinplate for Erdemir Turkey. This price series is useful because Erdemir announces prices monthly, and does not have a published price list, so prices reflect supply and demand, and also have to recognise competition from other suppliers. Here the rapid escalation in HRC prices mirrors what has occurred in USA but Erdemir has been constrained in increasing tinplate

prices so that the conversion margin, and hence profitability has been significantly reduced.

It is clear that Erdemir will need to raise its tinplate price to recover the conversion margin, if tinplate is to recover some profitability.

The conclusion from all this is that canmakers are faced with big raw material cost increases, which will have to be passed to the fillers, and on down the supply chain. This is, of course the norm when looking at aluminium prices, and it is interesting that the longest dated contracts for aluminium on the LME will be extended to 123 months (more than 10 years) from October, so it will be possible to fix prices by hedging for a very long period. In this context the message from both ArcelorMittal and Rasselstein is that the price of tinplate for beverage canmaking will have to be reassessed, changing the relationship between the price of tinplate and aluminium.

The consequence of this will be that the consumer sees small price increases in canned food, if the canmakers are resolute in recovering their costs. For example the cost of 420g can of baked beans in July 2004 was estimated by the *Daily Telegraph* newspaper, using MPMA data was as

### Price increases in Europe 2008/9

Date	Company	Increase
January 2008	Rasselstein	6 percent on 2007 prices
January 2008	Corus	6 percent on 2006 prices
January 2008	ArcelorMittal	6 percent on 2007 prices
July 2008	ArcelorMittal	€160 / tonne
July 2008	Rasselstein	Threat of price increase - €150 / tonne
January 2009	Rasselstein	30 percent
January 2009	Corus	30 percent
January 2009	Arcelor Mittal	30 percent on 2007 prices – to include July increase
April 2009	All mills	New contracts - not specified, but if raw material increase predictions are correct, about 12 percent

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