

‘Positive Momentum’

2016 was a good year for most toll processors, and 2017 is shaping up to be even better.



A worker at Ferrolux Metals, Wayne, Mich., inspects cold-rolled sheet destined for exposed automotive use. (Photo courtesy Ferrolux)

While the prospects for individual toll processors depend largely on their location and customer base, many are forecasting a strong year in 2017. “There is positive momentum in the marketplace. A lot of it has to do with both business and consumer confidence and changes in the economic picture,” says Peter Adamski, general sales manager for Taylor Coil Processing, Taylor, Mich., and chairman of FMA’s Outside Processors Council.

Bret Wells, national accounts manager for processing services at Heidtman Steel in Toledo, Ohio, sees both opportunities and challenges in the year ahead. First and foremost is the difficulty of forecasting. “The problem is you can’t see out past the first quarter. It looks like the first quarter will be strong, but until the new administration gets in and we can see the changes that occur, you don’t know about the rest of the year.”

Steel prices have risen by 50 percent in the past year. Hot-rolled coil tags have gone from less than \$400 to more than \$600 per ton. Although toll processors don’t buy and sell metals, their business is still affected by the rising prices, says Adamski. As prices go up, inventories tend to go down, and the supply chain becomes leaner. Processors feel pressure from both sides, the mills and the OEMs, to speed up deliveries. “It places a more significant premium on turnaround time for processing. You have to be nimble and flexible about how you get work done to keep as many people happy as possible.”

As the price of steel rises, so does the handling risk, notes Tim Bilkey, managing director of outside sales at Voss Clark, Jeffersonville, Ind. “If you have a reject for some reason, it is much costlier when steel is \$600 a ton versus \$400 a ton.”

Higher steel prices have made some toll customers more price sensitive, Adamski adds. “Right now, there is a lot of sticker shock on steel prices. There are some calls for processors to revisit their charge structure. But toll processors have gone



HyCAL Corp., Gibraltar, Mich., heat treats steels on a toll basis to produce high-strength grades for automotive and other applications. The new division of Ferragon recently shipped its initial coils. The HyCAL continuous anneal line uses a 100 percent hydrogen quenching process, rather than water, which gives it infinitely variable control of the cooling for superior heat regulation and more consistent product quality, the company claims. The HyCAL line can produce DP, CP, Trip, MS, QP, HT and third-generation steels, giving any steelmaker the opportunity to offer high-strength grades. "We are very excited about the potential of this line to expand the applications for AHSS and UHSS," says President Eduardo Gonzalez. (Photo courtesy HyCAL)

through a concerted effort to squeeze out cost and improve their efficiencies due to all the mill consolidation in the past 10 years. There is not a lot of room to maneuver anymore."

Domestic steel producers have filed several successful trade cases against unfair imports, which has slowed the flow of foreign steel into the country and contributed to the rising prices. Steel imports declined by 17 percent in 2016, shifting more sales to domestic mills and the toll processors they work with. The decline in imports is good news for domestic steel producers, says Jerry Hack, president of Dearborn Steel Center, Dearborn, Mich. "The healthier their business, the healthier my business."

Not all toll processors have benefited from the change. A toller who operates a processing line near a port may have lost business, while one adjacent to a U.S. mill may have seen his volume increase. "It depends on where you're located and your customer base," Adamski says. "The orders tend to go to the toll processor that is logistically advantageous."

Adamski is concerned that the effects of the trade cases,

combined with a strong dollar, are putting his customers at a serious disadvantage. "Ultimately, we are going to have to find a balance," he says. "The U.S. does not have the ability to supply all the steel it requires. There must be some level of imports. Over time we need to find some sort of harmony between domestic production and the material needed to supplement the country's needs."

Automotive is by far the largest market for toll processors, who level, slit and blank coils on their way from the mill to auto parts suppliers. Much automotive production has migrated to the Southeast and Mexico in the past two

decades, picking new toll winners and losers along the way. "There have been a lot of changes in the product lines, what is produced, where it is produced, and it has shaken up the supply chain. It has left gaping holes in some places and overtaxed others," says Hack. Automotive may still be the strongest market overall, "but it depends on who you are and where you are. They don't produce as many cars as they used to in Detroit."

“ Depending on where you are located, it's not a bad time to be a toll processor. ”

Peter Adamski, Taylor Coil Processing

That may be changing. Ford Motor Co. announced last month that it had scrapped plans to build a \$1.6 billion small-car assembly plant in San Luis Potosi, Mexico, and instead would invest \$700 million in a plant in Flat Rock, Mich. Fiat Chrysler Automobiles announced plans for a \$1 billion investment in its Warren and Toledo, Ohio, plants to make a Jeep pickup and revive the Wagoneer nameplate. Other carmakers are considering similar moves under pressure from the Trump administration to keep jobs in the U.S.

Hack remains skeptical about automakers' plans to expand production in the Midwest "Announcements are one thing. Having them translate into actual production is another. We are watching very closely."

Analysts forecast a 10 percent decline in vehicle production this year, but from record high levels. Many are encouraged by the reports of new investment in the Detroit area. "There are a lot of positive things going on in the Midwest," says Bob Demyan, vice president of sales at Flat Rock Metal, Flat Rock, Mich.

"The forecasts for automotive are still pretty rosy. Depending on your location, it really comes down to what vehicle platforms you support," says Bilkey.

Automakers' ongoing shift from steel to aluminum parts to make vehicles lighter and more fuel efficient continues to tax toll processors. Some have lost business, some have added aluminum processing lines. Most are gearing up to handle the new generation of advanced high-strength steels that steelmakers have developed in answer to aluminum's challenge.

Eduardo Gonzalez, president of Ferragon Corp., Cleveland, Ohio, hedged his bets by diversifying his business into nonferrous with the 2013 launch of Autolum Processing Co., Wayne, Mich., which offers slitting and inspection of aluminum sheet for the automotive market. He believes major domestic aluminum producers have failed to make enough capital investment to keep up with the growing need in the auto industry. "Automotive has slowed down the transition of steel parts to aluminum because the supply has not kept up with demand," he says. "Most of the aluminum we got in early 2016 came out of China. Even though the automakers may want to design more aluminum parts, they are reluctant to do so because they need a diverse supply chain. They aren't going to design parts with aluminum unless they have more than one potential supplier."

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The proliferation of high-strength steels has triggered a wave of capital investment among toll processors, as well as service centers. Coil lines require more horsepower and tougher tooling to level, slit and shear steels with tensile strengths far in excess of conventional hot-roll. At this point, most processors are attempting to retrofit their existing equipment, rather than spending millions for completely new lines.

“The capital investment to put new lines in is pretty great. Plus, the timing. Installing a new line takes a year from start to finish. If you want to react to the market, you have to be able to utilize your existing equipment and make modifications to it,” says Demyan at Flat Rock. And the process is ongoing. “You are always gearing up for it because the strength levels keep going

up and up. They continue to make higher-strength materials and we have to be able to process them.”

“Some companies are sitting back and waiting to see



With 3,000 tons of rolling force, the four-high cold mill at Ferrous Metal Processing produces cold-rolled strip with a consistent gauge and shape on a toll basis. (Photo courtesy FMP)

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what strength levels they will have to deal with. Some are leery to make an investment only to find out they did not upgrade enough," says Bilkey.

"As demand for AHSS expands, there may be a shortage of processors who can effectively handle the material and get it to the end-use customers in a timely manner," Adamski adds. "I can't help but believe we will eventually get to a point where just upgrading existing equipment may not be enough, given the direction advanced high-strength steels are taking."

Changes on the steel supply front hold promise for at least some toll processors. Two new suppliers—Big River Steel in Osceola, Ark., and Acero Junction in Mingo Junction, Ohio (the former Wheeling-Pitt mill) will both ramp up deliveries in 2017. Voss Clark, located on the Ohio River in Jeffersonville, is a long way from Big River Steel, but relatively close to Mingo Junction. "They could be advantageous for us, depending on who their customers become," says Bilkey.

Some toll processors are looking forward to improvement in the struggling energy sector. "With oil prices going up, you have to believe there will be some renewed interest

in drilling and line pipe, which places more demand on the steel industry," Adamski says.

Gonzalez, at Ferragon, believes the energy market has bottomed out and can only get better. "Anybody who was in energy last year suffered a lot," he says. The price for a barrel of oil has strengthened from less than \$30 per barrel to more than \$50 in the past year. Does that mean an energy resurgence is in the offing? Not likely, says Gonzalez. Oil would have to reach the \$65 to \$70 level for a sustained period to trigger major new oilfield investment.

Looking ahead, Gonzalez is optimistic. He expects 10-15 percent improvement in his business in 2017, on a par with other toll processors' forecasts.

Demyan "would love to see another 2016." There is some uncertainty today, but "the presidential election has been very favorable to the markets. We hope that carries through to the automotive side," he says.

"With the new administration will come new business opportunity, not just for automotive but for industry in general," Hack predicts.

"Depending on where you are located, it's not a bad time to be a toll processor," Adamski says. ■

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