

PERSPECTIVES: STEEL TUBE AND PIPE

Panic sinks pipe prices despite drive to 'hold the line'

That extended bull market cycle everyone was talking about a few months ago—well, that sounds like a bunch of bull these days.

Prices for most pipe and tube items are dropping—by as little as two percent to nearly 19 percent, according to market sources and a Perspectives survey. Several also noted a widening spread between domestic and import prices (which is why Perspectives included a few more imports prices in this issue).

The vast majority of survey respondents said they expected pipe and tube prices to continue to trend downward in coming months. Some said they expect tags to move sharply downward, although a small minority said they expected prices to hold steady. None said they anticipated increases.

Most also felt that market conditions were poor or very poor, although a few lucky souls felt their markets were in fair or good shape.

[Click here for full story](#)

Pipe shortage evaporates as commodity tags take dive

Plunging commodity prices spell trouble for a lot of energy drilling and exploration firms.

But there is one silver lining: potentially lower service and steel costs.

At a recent industry conference, a handful of drilling sector executives spoke with Perspectives. Some said pipe prices were coming down, others said that tags were holding steady. But almost all agreed on this: pipe is available — and that's a huge change from the boom days of just a few months ago.

Steel pipe prices have come down significantly and quickly, and the declines will help reduce costs, said Glenn Darden, president and chief executive officer of Quicksilver Resources Inc., a Fort Worth, Texas-based oil and natural gas producer and veteran unconventional resource player. "We're probably seeing steel off 20 percent easily, and we think it's going to come down a bit more than that on the pipe side," he said.

[Click here for full story](#)

As the economy caves, contracts become options to buy

When is a contract not a contract?

Apparently when people are desperate enough to say it's not binding, damn the potential legal consequences.

The issue is becoming an increasing problem for traders and distributors as some buyers find themselves short on cash or credit and willing to resort to extreme measures to keep from going belly up.

"It's gotten to the point where there are just no rules out there. Everyone is walking away from contracts," one trader said. "There is stuff coming in. People don't even go pick it up. They don't even tell you. It's unbelievable."

If you threaten them with a lawsuit, they still might not budge, he said. Instead, they'll demand a lower price or refuse to take the material at all. "Everything on import is being renegotiated," he said. "A contract, it's just an option to buy."

[Click here for full story](#)

Port of Houston moves most steel since '81—Is that a good thing?

The Port of Houston Authority (PHA) is on pace to handle a record-breaking 6.25 million tons of steel in 2008.

If port employees move 600,000 tons of steel as expected in December, they'll shatter a 5.6-million-ton mark that has held up since 1981. The authority says it already has 450,000 tons on the books for the month.

"We're rocking and rolling in steel this year," crowed a spokeswoman for the authority. "In general we've always done well in steel, and we're just continuing that."

(Note to readers: those stats refer to the PHA and not the entire Port of Houston.)

Perspectives doesn't want to rain on the PHA's proverbial parade. But it does recall that the '81 record didn't augur more good times. PHA handled only 4 million tons of steel in 1982. Oil prices collapsed.

And 1982 wasn't a stellar year for steel either. Shares of the U.S. Steel Corp., Pittsburgh, slid 49.5 percent while shares of

Nucor Corp., Charlotte, N.C., fell 54.2 percent in the 1981-82 recession (AMM, Oct. 8).

Of course, shares of both companies have plunged even further this year.

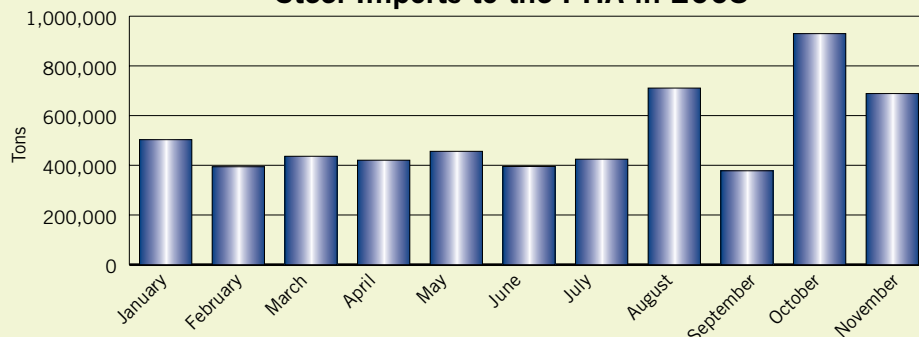
"Everyone is cautiously optimistic right now," the spokeswoman said. "We're encouraged, but we know that we don't know what to expect."

It's a refrain Perspectives hears again

and again: We know that we don't know what will come next. Or, as former Defense Secretary Donald Rumsfeld put it: "There are things we know that we don't know—the known unknowns. And there are unknown unknowns; the things we do not yet know that we do not know."

Too bad our times don't have better, more eloquent words to live by.

Steel Imports to the PHA in 2008



Panic sinks pipe and tube prices despite drive to 'hold the line'

That extended bull market cycle everyone was talking about a few months ago—well, that sounds like a bunch of bull these days.

Prices for most pipe and tube items are dropping—by as little as two percent to nearly 19 percent, according to market sources and a *Perspectives* survey. Several also noted a widening spread between domestic and import prices (which is why *Perspectives* included a few more imports prices in this issue).

The vast majority of survey respondents said they expected pipe and tube prices to continue to trend downward in coming months. Some said they expect tags to move sharply downward, although a small minority said they expected prices to hold steady. None said they anticipated increases.

Most also felt that market conditions were poor or very poor, although a few lucky souls felt their markets were in fair or good shape.

"The economy is tanking, and prices are starting to drop as the market has seized up," one respondent said.

Another respondent said there is currently "no market" and that prices were slipping on poor demand and lower hot-rolled-coil tags. He said he expected those conditions to continue through December and January but hoped that the end of the first quarter could see more activity if the economy were to pick up.

While some expressed cautious optimism, *Perspectives* was struck by just how negative most market sentiment was.

Several people *Perspectives* spoke with said some major pipe mills don't have any orders booked past March 31. Almost all noted a slowdown in activity—be it on the construction or the energy front, which has been hit hard by tumbling oil and gas prices. Several also noted that some mills have been dropping prices, even if letters officially announcing the decreases may not have gone out.

One source in the structural tubing industry said his company was doing its best just to keep the doors open and workers employed through the end of the year. "We just don't feel right about laying people off before the holidays when we've had a good year," he said. "But it doesn't come without a lot of debate around the management team's table."

Still, keeping people busy is no easy task when orders are hard to come by. "We couldn't keep producing or we would blow the doors off the warehouse," the structural source said.

So, what have the workers been up to lately? "I just walked through the plant," he said. "It's

so clean, you could have a picnic on the floor."

A piling pipe source said his company was doing its best to bring in jobs, even small ones, to keep its mills running. "We've got people in the industry 20-30 years, and they're just shocked," he said. "We've made some sales, albeit at a lower price."

He expressed little hope that a new administration would be able to implement a stimulus package in time to turn things around in the short term. "Road construction and maintenance are still going to be down next year," he opined.

In the meantime, he said his company is trying to cut costs as much as possible without letting workers go.

One service center source said his company was trying its best to hold the line on prices. After all, he reasoned, why drop tags very far when people won't buy no matter how low you go? "None of us see the need to drop the price more because there is no demand," he said.

He agreed that a potential stimulus package, including infrastructure spending, likely wouldn't come in time to save companies already on the brink. Even if such a package were to pass Congress and be implemented at "light speed," the effects probably

wouldn't be felt until May at the very earliest, he said. (And the government is not known for its quickness and agility, he noted.)

He worried that conditions could become "catastrophic" by March—especially for smaller firms who don't have much cash on hand and whose operations depend on receivables. "They aren't going to be able to survive three months if the economic situation doesn't improve," he said. "You can't pay your guys in pipe."

Unlike past downturns, this time around banks may not be willing to provide financing for wages, utility bills, rent and other costs, he said. If credit is available, it doesn't come cheap. And because the U.S. economy is consumer-based, things won't improve until customers start buying—an unlikely prospect with so many afraid of losing their jobs.

He predicted that even some major mills and service centers—not just in the United States, but around the world—could be filing for bankruptcy protection as soon as March. He also expressed fears that desperate players could ruin market discipline. "If their cash is tied up in inventory, people will sell at any price just to keep the doors open," he said.

"But they're also shooting themselves in the

Continued on page 3>

Spot Buying Prices			
In short tons, fob mill, includes scrap and alloy surcharges			
	Dec. 2008	Nov. 2008	% change
Domestic hollow sections ex-mill ASTM A500, 4" x 4" x 3/16" gauge, 42 ft, hot-rolled bare	\$1,065	\$1,150	-7.4
Welded Mechanical Tubing ASTM A513 1" x 1" x 16 gauge, 20 - 24 ft, hot-rolled bare	\$1,135	\$1,200	-5.4
Structural Pipe Piling ASTM A252	\$1,015	\$1,250	-18.8
ERW Standard Pipe A53 Grade A	\$1,420	\$1,450	-2.1
Import Standard Pipe A53 Grade A *	\$1,375	—	—
Water Transmission AWWA C200	\$1,320	\$1,400	-5.7
Domestic ERW linepipe (X42) ex-mill	\$1,780	\$1,950	-8.7
Import ERW linepipe (X42) c&f	\$1,395	\$1,600	-12.8
OCTG API 5CT - Casing J/K55	\$2,385	\$2,550	-6.5
Import OCTG API 5CT - Casing J/K55 *	\$1,875	—	—
Seamless OCTG API 5CT - Casing L80	\$3,000	\$3,600	-16.7
Import Seamless OCTG API 5CT - Casing L80 *	\$1,950	—	—
Seamless OCTG API 5CT - Casing N80 Q	\$2,880	\$3,350	-14.0
Import Seamless OCTG API 5CT - Casing N80 Q *	\$1,925	—	—
Seamless OCTG API 5CT - Casing P110	\$3,185	\$3,750	-15.1
Import Seamless OCTG API 5CT - Casing P110 *	\$2,325	—	—
Seamless linepipe - API 5LB	\$2,030	\$2,400	-15.4
Import Seamless linepipe - API 5LB *	\$1,570	—	—
Seamless mechanical - ASTM A519, hot-rolled carbon	\$1,850	\$2,000	-7.5

* - *Perspectives* has added import prices for several items at the request of our readers.

Source: *Perspectives*

<Continued from page 2

neck because they are dropping the value of their inventory."

What if you find yourself in such a situation? It might be time to start negotiating with a bigger company to buy you out before you go bust, he said.

And what will the next few months bring? Good luck finding that crystal ball.

"Long-term planning is Monday to Friday. Short term is what you're doing today," quipped one distributor. "There are just too many variables."

People are on the sidelines until they see what will happen in Washington and whether credit markets will ease, he said. And while most construction projects already underway will be finished, many new or recently started jobs have been put on hold or cancelled outright. And he predicted that energy would "fall off a cliff."

"You go home Friday, and you think you're dumb fat and happy. All of a sudden on Monday the

energy industry is gone," he joked. "If you don't have cash or access to cash and you have to go out and borrow money, you're S.O.L."

On the energy front, several sources noted that the domestic mills probably aren't dropping prices on seamless material even though there is increasing downward pressure on the welded side. And many lamented that imports, especially from China, continue to flood the energy sector even as drilling activity is tailing off.

The U.S. imported 458,167 tonnes of oil country tubular goods in October, according to U.S. Census Bureau figures. That's up 5.7 percent compared to final figures for September and nearly 4 times final figures from October 2007. November license data suggests OCTG imports to the U.S. could breach the 500,000 ton mark—with China accounting for roughly 65 percent.

Some pointed to a "huge" differential between domestic and Chinese material on a wide range of products. Some suggested that U.S. mills could

get "slaughtered" unless they dropped prices. But others said the biggest differentials were on commodity grade material, for which imports have long claimed a big chunk of the market.

"When the market cratered, the Chinese began dumping everywhere they could," one distributor said. "And it's in all grades, seamless, ERW, everything."

But not all of the blame can be placed on Chinese mills, one trader noted. Many domestic customers over-ordered earlier in the year when energy prices were high and people were desperate to get material to keep rigs running, almost irregardless of its price. At the time, many buyers reasoned that it was better to have too much pipe on hand than to run the risk of having an order come in late. Their biggest concern was having to shut down a rig they were paying top dollar to rent.

That strategy may have made sense at the time, but not any longer, the trader said. And the excess material now hitting U.S. shores could put pressure on prices for months to come, he speculated. "Everyone double and triple ordered, and this is what you get," he said.

Making matters worse, he said, the Chinese are desperate to sell but may be having trouble booking orders because, with prices falling fast, no one wants to book too far out and be stuck with material that will be high-priced by the time it arrives.

But he cautioned against letting an end-of-the-world mentality take hold. While drilling activity has dropped recently, it is still roughly on par with last year's levels at this time. "Let's say the rig count goes to 1,500," he said. "That's still a lot of pipe."

Michael Cowden
mcowden@amm.com

November U.S. Imports Licenses for Pipe and Tube (in metric tonnes)

	Nov '08 Licenses	Oct '08 Preliminary	Nov '07 Final	% Change M-O-M	% Change Y-O-Y
Oil Country Goods C&A	507,107	451,427	171,902	12.3	195.0
Line Pipe C&A	214,157	251,924	277,497	-15.0	-22.8
Standard Pipe C&A	83,242	94,579	68,632	-12.0	21.3
Mechanical Tubing C&A	48,769	43,793	52,728	11.4	-7.5
Structural Pipe and Tube C&A	24,878	30,425	39,736	-18.2	-37.4
Pressure Tubing C&A	12,323	12,878	8,362	-4.3	47.4
Pipe for Piling C&A	2,065	3,166	1,601	-34.8	29.0
Nonclassified Pipe and Tubing C&A	1,088	1,393	2,212	-21.9	-50.8
Stainless Pipe and Tubing	10,583	10,447	11,025	1.3	-4.0
Stainless Oil Country Goods	11,096	6,739	3,267	64.7	239.6
Stainless Line Pipe	5,486	10	767	54760.0	614.9

Source: U.S. Dept. of Commerce, Import Administration

October Preliminary U.S. Imports for Pipe and Tube (in metric tonnes)

	Oct '08 Preliminary	Sept '08 Final	Oct '07 Final	Sept 08 YTD	Sept 07 YTD	% Change M-O-M	% Change Oct Y-O-Y	% Change Sept YTD Y-O-Y
Standard Pipe	94,579	109,983	109,128	793,333	1,041,601	-14.0	-13.3	-23.8
Oil Country Goods	458,167	433,553	118,541	2,179,540	1,375,802	5.7	286.5	58.4
Line Pipe >16 Inches in Diameter	124,505	148,852	178,970	1,449,397	1,271,022	-16.4	-30.4	14.0
Line Pipe <=16 Inches in Diameter	83,857	64,828	39,273	444,436	347,664	29.4	113.5	27.8
Line Pipe - Not Specified	43,573	39,463	32,870	334,518	367,559	10.4	32.6	-9.0
Mechanical Tubing	43,794	48,172	45,846	403,708	509,399	-9.1	-4.5	-20.7
Pressure Tubing	12,878	9,380	6,151	93,940	86,721	37.3	109.4	8.3
Stainless Pipe and Tubing	10,448	10,346	12,025	96,116	124,530	1.0	-13.1	-22.8
Nonclassified Pipe and Tubing	1,394	1,493	1,471	11,714	16,020	-6.6	-5.2	-26.9
Structural Pipe and Tube	30,426	43,291	49,443	367,020	494,942	-29.7	-38.5	-25.8
Pipe for Piling	3,167	544	4,985	9,849	29,123	482.2	-36.5	-66.2

Source: U.S. Census Bureau, Foreign Trade Statistics

The pipe shortage evaporates as commodity tags take a nosedive

Plunging commodity prices spell trouble for a lot of energy drilling and exploration firms.

But there is one silver lining: potentially lower service and steel costs.

At a recent industry conference, a handful of drilling sector executives spoke with *Perspectives*. Some said pipe prices were coming down, others said that tags were holding steady.

But almost all agreed on this: pipe is available — and that's a huge change from the boom days of just a few months ago.

Steel pipe prices have come down significantly and quickly, and the declines will help reduce costs, said Glenn Darden, president and chief executive officer of Quicksilver Resources Inc., a Fort Worth, Texas-based oil and natural gas producer and veteran unconventional resource player.

"We're probably seeing steel off 20 percent easily, and we think it's going to come down a bit more than that on the pipe side," he said, citing fresh data from his operations team. "Realistically, we may see a 25-percent drop in steel prices this year on pipe."

"That's 25 percent down from 300 percent up," he told *Perspectives* on the sidelines of the conference. "But it's nice. Down is down."

And availability is no longer an issue, especially for the "plain vanilla" 5.5-inch pipe that accounts for much of the company's buy, he said. "It was real tight for a while," he said. "Now there is no talk about availability." Service costs are down by 10 to 20 percent, he added.

That's good news for Quicksilver, which has "committed to live within cash flow," according to Darden, repeating a common thread for several companies presenting at the conference. "We have historically funded the company more with debt than equity. Our debt is a little higher than we would like it to be in these times, but it's very comfortable," he said. He said he is happy to have the assets the company has acquired using that debt.

Darden also pointed out that merger-and-acquisition activity in the drilling and exploration sector is not dead, even though there are more joint ventures than outright mergers these days. "I think there is a bit of a shell shock factor right now. But the traditional M&A is still out there," he said. And that's especially true at current valuations, he added.

Seven-inch pipe is still "pretty hard" to get, said Lynn Peterson, president and chief executive officer of Kodiak Oil & Gas Corp., Denver Colo. The company is drilling on the Bakken Shale, which spreads across Montana and North Dakota.

That's in part because there are a lot of players competing on the Bakken and a limited number of rigs, equipment and service providers. While some pipe is still hard to come by, the situation is better than earlier this year when pipe was "absolutely impossible to get," Peterson said.

"We're seeing pipe prices fluctuate a little bit. But I'm not sure that they're coming down yet," he said.

Several Canadian executives noted that while availability was improving, there was not significant evidence of big price cuts.

"We're probably seeing steel off 20 percent easily, and we think it's going to come down a bit more than that on the pipe side. Realistically, we may see a 25 percent drop in steel prices this year on pipe."

—Glenn Darden, president and chief executive officer, Quicksilver Resources

Much of the production from Canadian mills was headed to the United States only a few short months ago, but that is no longer the case, especially as U.S. activity slows, said John Dielwart, president and chief executive officer of ARC Energy Trust, Calgary, Alberta.

"You still need to manage the process. But you should be able to get tubular steel when you need it, and that was not the case four months ago," he said.

Dielwart thinks there is a good chance that prices could go down in the future.

"What we've seen is 10-percent-a-month increases through the second and early third quarter. We've seen that rate of increase stop," he said. But his operation employees say that while there are some price decreases at the margins, there is "nothing material yet."

Still, while falling steel prices might be nice, Dielwart is concerned about commodity volatility.

"With oil at \$150 the fundamentals didn't support it. And with oil at \$50, the fundamentals don't support it," he said. But, in the U.S. in particular, the lack of a coherent energy policy

means that too much oil or gas is often brought on line, leading to dramatic price and production declines, which, in turn, spark the next round of shortages and increases.

Although oversupply is always a concern, Dielwart said his company is relatively optimistic about oil and gas prices in the future. He thinks oil will return to \$90 to \$110 a barrel and natural gas to \$7.50 to \$9.00 mmBtu. "That's a wonderful playground to play in," he quipped. "We're just not sure when we'll get there. Maybe sooner for gas than in oil, but you never know."

The current economic situation makes projects difficult, he noted. "I've never seen anything like this because you've got a market meltdown," he said. "Whether it's in banking, housing, manufacturing, auto, energy, they're all struggling at the same time. I can't recall seeing that before. There was always some segment that was doing well."

It's not a bad situation to be operating in an environment when costs are coming down, including those for steel, said Ted Hanbury, executive vice president at Daylight Resources Trust, Calgary, Alberta.

"We've started to see (steel costs) decline a little bit recently. Certainly, it was a concern industry-wide because there were price increases," Hanbury said. But the exact dip is hard to quantify at the moment, he added.

Some producers brag that they largely managed to dodge price increases that put a hurt on their competitors.

Take Celtic Exploration Ltd., Calgary, Alberta. Back in May, the company locked in enough steel to tide itself over through spring 2009.

"We've kind of missed out on the last four price increases," said David Wilson, president, director and chief executive officer at Celtic Exploration. Now, "everything is pointing toward a reduction in steel prices," he said.

He noted, however, that prices for specialized oil patch goods remain high.

One of the biggest costs for some horizontal drilling operations had been frac oil, said Sadiq Lalani, Celtic Exploration's chief financial officer. But with the price of oil dropping, those costs will "come down significantly," he said.

In short, the economic crisis and commodities downturn bring plenty of pain but also present some opportunities.

"Steel isn't going to be a problem," Wilson said. "It benefits the cost structure with this big pullback."

Michael Cowden
mcowden@amm.com

As the economy caves, contracts suddenly become options to buy

When is a contract not a contract?

Apparently when people are desperate enough to say it's not binding, damn the potential legal consequences.

The issue is becoming an increasing problem for traders and distributors as some buyers find themselves short on cash or credit and willing to resort to extreme measures to keep from going belly up.

"It's gotten to the point where there are just no rules out there. Everyone is walking away from contracts," one trader said. "There is stuff coming in. People don't even go pick it up. They don't even tell you. It's unbelievable."

If you threaten them with a lawsuit, they still might not budge, he said. Instead, they'll demand a lower price or refuse to take the material at all. "Everything on import is being renegotiated," he said. "A contract, it's just an option to buy. There are guys out there who will cancel and then try to buy it back \$200 (per ton) cheaper before the boat hits."

Traders may have very little recourse, he said. "What are you going to do? Go to court? Sit with the steel on the docks for the next two years and fight it out with the guy?" With prices in free fall, the word of the day is "survival," he said.

A second trader agreed that contract violation is becoming a big issue.

"A month ago, most people were saying, 'If it's late, I don't want it.' Today, it's 'I don't want it.' Period," he said.

Some buyers may have ordered import material earlier in the year that is now coming into port at \$300 per ton or \$400 per ton over current market prices, he said. "If taking that kind of loss puts you out of business, then you cancel," he said.

A lot of pipe is coming into the Port of Houston unsold or unclaimed, he said. That is, in part, because trading companies have taken long positions they are now stuck with and mills had orders cancelled but shipped anyway, the trader said. "Right now, there is a lot of unsold material in Houston, and it's causing a great deal of pressure on some companies to try to dump," he said. "But you should have done that in August and September. It's too late to dump now."

The Port of Houston Authority is not being flooded with unclaimed orders for steel pipe and tube, a spokeswoman for the port authority said. But steel industry statistics seem to back up the possibility that a large volume of pipe is coming into Houston at a time when demand has

tumbled from peaks seen earlier in the year when oil hit \$150 a barrel.

More than 620,000 tons of steel pipe and tube were imported to Houston in September 2008, according to the latest available data from SteelFacts, McKees Rocks, Pa. That's up 44.2 percent from August 2008 and more than double the 290,183 tons imported to Houston in September 2007.

The big problem: it may be very hard to get rid of all that pipe—no matter how low the price, several market sources said. "Try to tell someone in finance, economics or accounting that there is no buyer. They don't understand that," the second trader said. "Well, at some price there's a buyer," they say. No, not right now."

So, what are customers saying? "If I need it, I'll buy it. But I don't need it, so I'm not buying." That's the problem," the trader said.

Nobody wants to add to inventory at the end of the year in a bad market, he said. "There is too much steel here. The prices continue to erode. Where is the bottom? Who knows?" he asked. He speculated that prices, in general, have fallen 10 percent in recent weeks and could bottom out after falling another 10 percent to 15 percent.

One distributor said high-priced material is coming in slated for customers that now can't take the orders, especially with rigs shutting down and firms scaling back drilling activity. And taking the matter to court is not necessarily the solution, he said. "It depends on the size of the cancellation. Some of them you just let go. Some just aren't worth the time and effort, some are," he said.

A service center source said some customers are claiming the economic crisis is effectively a "force majeure." Their attitude: "It's not your fault, it's not mine. It's an act of God," he said.

He said his company signed contracts with added guarantees that prevent cancellations but that customers are still trying to back out. He said his firm is telling them that it cannot absorb the excess inventory and to wait and see what the market is doing closer to the delivery date before taking any drastic action.

Traders may face particularly steep hurdles

because if they tighten up their credit standards, it could drive customers to buy directly from mills, which generally have stricter credit standards, he said. Another advantage: buying direct saves them on the trader commissions, he added.

"The traders are going to be big losers right now. Whatever the customer tells them, they will say, 'Yes.' They have no choice," he said.

Of course, contract conflicts are hardly confined to middlemen.

On the high end of the spectrum, there is the ongoing legal battle between Washington, D.C., private equity firm The Carlyle Group and Russia's OJSC Novolipetsk Iron & Steel Works. That one is over a \$3.5-billion deal gone bad for pipe and tube producer John Maneely Co., Beachwood, Ohio.

On a more pedestrian level, *Perspectives* has heard several cases of drilling and exploration firms pulling back from leases that landowners had assumed were air tight—money in the bank, so to speak. But that could create opportunities for firms that survive the commodities downturn relatively unscathed and are looking to build their acreage.

"Take the Marcellus, for example. It got so fired up that we quit leasing," said Harold Korell, chairman and chief executive officer, Southwestern Energy Co. "And now there are companies who are pulling out of that who have quit paying their drafts that they issued to mineral owners. And you know, land owners don't like it when that happens."

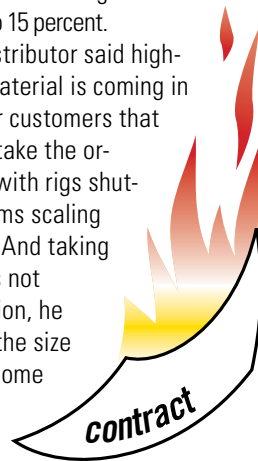
Korell spoke with *Perspectives* at the Thomas Weisel Partners natural resources conference in New York.

A Houston natural gas and oil exploration firm, Southwestern is known for its large presence on the Fayetteville Shale but is also on the Marcellus, Korell noted. And while Southwestern doesn't particularly want to be thought of as an acquirer of other firms, it could look to expand its leaseholds in areas that previously were too expensive but are now available at a discount, he said. "There are some who have gotten over-leveraged and overexposed," Korell said. "It'll be an interesting time period, the next six months, to see what happens."

The Fayetteville Shale is located in Arkansas. The Marcellus Shale runs roughly from West Virginia, through Pennsylvania and into New York.

So gentle reader, what is today's lesson? Don't believe it until you see it. Even after you've signed on the proverbial dotted line.

Michael Cowden
mcowden@amm.com



V&M Star eyes tubular expansion

V&M Star is considering expanding its mini-mill in Youngstown, Ohio, to increase the amount and type of tubular products it manufactures.

Although V&M Star, part of Vallourec & Mannesmann Tubes Corp., Houston, has submitted an air quality permit request to the Ohio Environmental Protection Agency, the project remains subject to company approval.

V&M Star indicated in a statement that it was evaluating a site in Girard, Ohio, and Youngstown—where a current operation exists—for possible expansion of melt and rolling mill operations. The company said that an air permit application has been submitted to the state EPA in concert with its ongoing planning process. The statement said that no final decision has been made on an expansion or the location of any expanded facility.

In its Ohio EPA application, V&M proposes upgrading and expanding the melt shop and billet casting operations to increase allowable hourly production rates, boosting annual output by 70 percent to 1.4 million tons of liquid steel from 830,000 tons currently. A second pipe mill also is planned to make smaller-diameter seamless pipe for a variety of markets not currently served, the application indicated.

V&M's application does not detail potential sizes of the new tube that could be produced at the mill if it expands. However, in the application V&M discusses possible construction of a new seamless tube mill, which it calls a Fine Quality Mill (FQM), with production capacities of 154 tons per hour and 660,000 tons per year.

Although V&M does not specify what size tubulars it will expand into, Kurt Minnich, manager of Pipe Logix Inc., a Sante Fe, New Mexico-based affiliate of energy consultancy Spears & Associates, said the information in the Ohio EPA request seems to indicate seamless alloy tubing. "That's the kind of thing that is tighter in the marketplace right now," he added.

TMK Ipsco, Atlas issue pink slips

The economic slowdown has worked its way down the pipeline to two more tubular operations in the United States. TMK Ipsco, Downers Grove, Ill., and Atlas Tube Inc., Harrow, Ontario, both confirmed they would reduce production due to the weak economy, resulting in layoffs.

At TMK Ipsco, the cutbacks will involve

about 50 people at the company's welded plant in Wilder, Ky., said Ray Rarey, vice president and chief human resources officer. "This is slightly over 2 percent of our entire work force, but 20 percent of the hourly work force at Wilder," he said. "The production cutback is less than 10 percent of our welded production at full capacity."

The company's seamless production and output of premium connections won't be affected, Rarey said.

Atlas Tube, part of John Maneely Co., Beechwood, Ohio, plans to temporarily idle production at its Blytheville, Ark., facility starting Dec. 19, a source familiar with the matter said. The company will continue to ship as required to meet customer needs, he said. While the source offered no specifics on the number of workers to be affected, a Blytheville Courier News report indicated that about 80 workers are facing layoff.

Previously announced expansions at the plant will continue, the source said. "It doesn't change our long-term strategy with Blytheville," he said. "It's just a temporary shutdown due to market conditions. Nothing else is changing."

TMK Ipsco is reducing output due to a recent surge of imported pipe into the North American market, the company said. "At the present time our company is evaluating order intake rates in comparison to production schedules and determining what level of production curtailments to take," Vicki Avril, TMK Ipsco's president and chief executive officer, said in a statement.

The company said its reduction, which primarily affects electric resistance welded (ERW) product lines, will be implemented through the curtailment of overtime and selective work force reductions, which will be kept to a minimum by utilizing downtime to conduct additional training, performing extended maintenance and taking holiday outages.

Atlas ups output at Marcellus properties

Atlas Energy Resources LLC, Pittsburgh, is using a new technique to double production from its Marcellus Shale properties. The two-stage frac design, which is in use at five of the company's vertical wells in the Marcellus Shale, averaged initial production rates of 2.1 million cubic feet per day for 24 hours, more than double the company's historical average of approximately 1 million cubic feet per day over 90 previous vertical completions in its Marcellus program.

Although Atlas said the results aren't assured to continue, it expects to realize sizable increased reserves and production per vertical well drilled. The incremental cost of the two-stage design over a single-stage design is approximately \$125,000.

Atlas successfully drilled and cased its second horizontal well to the Marcellus Shale with a lateral length of approximately 3,000 feet. The company plans to complete the well in Washington County, Pa., with an eight-stage frac.

Lakeside sets temporary layoffs

Tubular steel products maker Lakeside Steel Corp. is temporarily laying off nearly 11 percent of its unionized work force in Welland, Ontario.

Rick Alakas, president of Canadian Auto Workers union Local 523, which represents 369 workers at the plant, said the job cuts were not unexpected. The action will affect 40 employees. "We've been reporting to our members for some time that we foresaw layoffs coming," he said. "It stood to reason that with the downturn in the market overall, and the sectors we supply tubular products slowing down too, it eventually was going to hit us. We're not insulated."

Lakeside Steel is the former Stelpipe Ltd., a Stelco Inc. subsidiary that was bought for \$67 million in 2005 by an investor group. It is now owned by venture capital fund Added Capital Corp., Toronto. It makes product for the oil and gas, automotive, mining and commercial and industrial markets.

The layoffs at Lakeside Steel were scheduled to begin Dec. 8, Alakas said. There is no timeframe as to when callbacks might occur.

Webco worried despite strong quarter

Webco Industries Inc. posted fiscal first-quarter net income of \$5.08 million, a 9.1-percent jump from the same period a year earlier, on sales that rose 12 percent to \$110.6 million.

F. William Weber, chairman and chief executive officer of the Tulsa, Okla.-based manufacturer and distributor of carbon, stainless and other metal tubular products, said that although the fiscal first quarter ended Oct. 31 was "excellent," he is concerned with the current turbulence in the economy and the company's ability to forecast the ultimate impact on business.

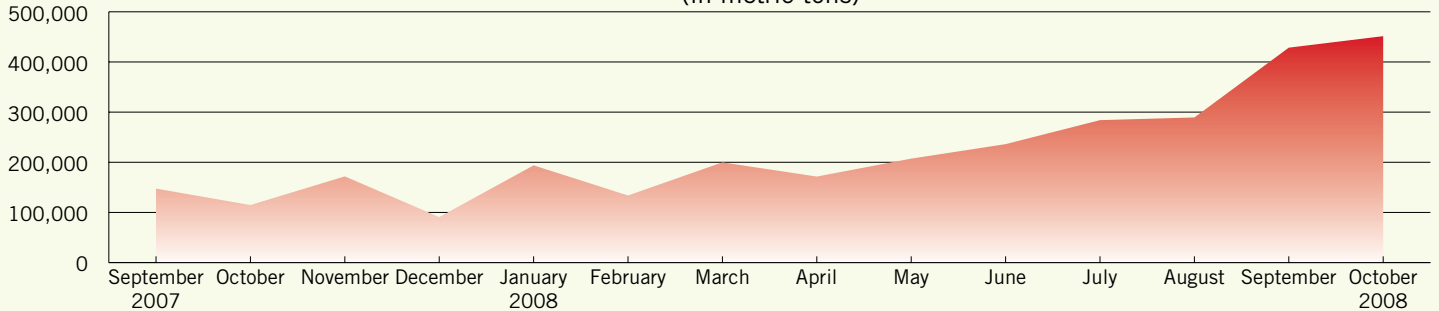
With contributions from Maria Guzzo and Scott Robertson in Pittsburgh and Corinna Petry in Chicago.

Imports of Steel Pipe and Tube to the Port of Houston

Tons as values		2008/Jan	2008/Feb	2008/Mar	2008/Apr	2008/May	2008/Jun	2008/Jul	2008/Aug	2008/Sep	2008
Houston TX	Imports	386,241	264,255	393,104	306,728	358,977	407,964	428,811	430,075	620,174	3,596,329
	Shipment Flag	386,241	264,255	393,104	306,728	358,977	407,964	428,811	430,075	620,174	3,596,329
Houston TX		386,241	264,255	393,104	306,728	358,977	407,964	428,811	430,075	620,174	3,596,329

Source: Steel Facts

U.S. Imports of OCTG
(in metric tons)



U.S. Imports of Steel Mill Products
(in metric tons)

Product	Census Data													Preliminary	License Data
	Sept. 07	Oct. 07	Nov. 07	Dec. 07	Jan. 08	Feb. 08	March 08	April 08	May 08	June 08	July 08	Aug. 08	Sept. 08	Oct. 08	Nov. 08
Oil Country Goods—C & A	147,552	114,743	171,902	90,800	193,894	133,794	199,844	171,527	207,309	236,157	284,014	289,382	428,530	451,427	507,107
Line Pipe—C & A	198,356	250,407	277,497	196,646	277,392	263,219	248,313	255,591	244,650	257,202	255,925	169,805	253,012	251,924	214,157

C & A: Carbon and Alloy products

Source: US Department of Commerce, Import Administration

North American Rotary Rig Count - December 5, 2008

Location	Week	+/-	Week Ago	+/-	Year Ago
Land	1771	-12	1783	32	1739
Inland Waters	18	-4	22	-10	28
Offshore	63	2	61	2	61
United States Total	1852	-14	1866	24	1828
Gulf Of Mexico	60	2	58	1	59
Canada	404	-2	406	16	388
North America	2256	-16	2272	40	2216
Breakout Information					
Oil	413	1	412	73	340
Gas	1428	-15	1443	-54	1482
Miscellaneous	11	0	11	5	6
Directional	366	-4	370	5	361
Horizontal	625	5	620	169	456
Vertical	861	-15	876	-150	1011
Major State Variances					
Alaska	12	0	12	2	10
Arkansas	54	-3	57	4	50
California	40	0	40	2	38
Colorado	113	-8	121	-4	117
Louisiana	185	-5	190	25	160
New Mexico	71	2	69	-8	79
North Dakota	86	0	86	31	55
Oklahoma	175	-1	176	-26	201
Texas	852	-38	890	-20	872
Wyoming	79	3	76	5	74

Source: Baker Hughes

SAVE THE DATE!

2ND ANNUAL

STEEL TUBE & PIPE CONFERENCE



MARCH 31 - APRIL 2, 2009

DOUBLETREE HOTEL HOUSTON | HOUSTON, TX

BIGGER SPACE IN 2009

For more information, please call 212.224.3577

PERSPECTIVES: STEEL TUBE AND PIPE

Tel: (212) 213-6202
Fax: (212) 213-6617
Subscriber services: (800) 947-9553; (818) 487-4551
230 Park Avenue South, 12th floor, New York, NY 10003

GLOBAL PUBLISHER AND PRESIDENT
Raju Daswani • (212) 213-6202
rdaswani@amm.com

PUBLISHER
David Brooks • (412) 765-2583
dbrooks@amm.com

SENIOR EDITOR
Jo Isenberg-O'Loughlin • (646) 274-6230
jisenberg@amm.com

EDITOR
Michael Cowden • (646) 274-6214
mcowden@amm.com

American Metal Market (ISSN 0002-9998) is a registered trademark of American Metal Market LLC.

Subscriptions to Perspectives: Steel Tube and Pipe are \$1295 USD per year and include a weekly issue delivered via email. Package deals with AMM and group subscriptions are available at discounted rates. Please call 877-638-2856 for more information.

Copyright © 2008 American Metal Market LLC. All rights reserved. No part of this publication may be reproduced, stored in a data retrieval system or transmitted in any form whatsoever or by any means without obtaining American Metal Market LLC's prior written consent. Unauthorized or unlicensed copying of any part of this publication is a violation of copyright law. Violators may be subject to legal proceedings and liable for substantial monetary damages for each infringement, as well as costs and legal fees.

For permission to photocopy and use material electronically from American Metal Market Perspectives, please contact the Copyright Clearance Center at (978) 750-8400 (www.copyright.com).

Disclaimer

Prices and other information contained in this publication have been obtained by American Metal Market ("AMM") from sources believed to be reliable. Pricing information is collated through regular contact with producers, traders and purchasers, and represents an approximate evaluation of current levels based upon dealings (if any) that may have been disclosed to AMM prior to publication. Actual transaction prices will reflect quantities, grades and qualities, credit terms and many other parameters. The prices are in no sense comparable to the quoted prices of commodities in which a formal futures market exists. Efforts are made to ensure that pricing information is representative, but because of the possibility of human or mechanical error by our sources, AMM or others, AMM does not guarantee the accuracy or completeness of any published information. AMM is not responsible for errors or omissions, or for the results obtained by the use of such information, and disclaims any liability to any person for any loss or damage caused by such errors or omissions, including those arising from the negligence of AMM, its employees or representatives.