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# Defense Logistics Agency 2009 Strategic Partners' Conference

**Strategic Sourcing – Effective Utilization of Industrial Capability**

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# IMPACT OF ECONOMIC DOWNTURN U.S. CAPACITY UTILIZATION RATES

	Present Year Ago '72-'08 Avg		
<b>Steel</b>	<b>42%</b>	<b>90%</b>	<b>80.5%*</b>
<b>Mining</b>	<b>89%</b>	<b>90%</b>	<b>87.6%</b>
<b>Manufacturing</b>	<b>68%</b>	<b>79%</b>	<b>79.6%</b>

\*average is for 1975-2007, American Iron and Steel Institute

Sources: American Metal Market, Federal Reserve



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# IMPACT of GLOBAL ECONOMIC DOWNTURN on MINING MERGERS and ACQUISITIONS

**Recent boom in commodity prices resulted in numerous high profile mergers and acquisitions in mining sector**

**Precipitous drop in commodity and stock prices resulting in difficulties for companies in repaying loans, as well as inability to sell non-core assets**

**Is this an opportunity for those with cash – e.g. China**



## U.S. Metals & Mining in Decline?

Prices for most metals down over 50% since peaks in 2008 forcing curtailments – will production resume when prices improve?

2008 U.S. trade deficit for metals up slightly over 2007 accounting for roughly 9% of the total trade deficit (oil and petroleum is 40%)

Per Fraser Institute, U.S. not viewed as a favorable location for exploration dollars – based on policies more than geology

Per UNCTAD, over half of all metals mining in the U.S. is undertaken by foreign companies



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# China on the Move, 2009

**Chinalco invests \$19.5 billion in Rio Tinto (UK/Australia) for 18% stake, including 25% share of Kennecott (U.S. copper mining and smelting)**

**China Minmetals buys OZ Minerals (Australia) for \$1.7 billion**

**Chinese steelmaker Hunan Valin invests \$600 million in Fortescue Metals Group (Australia's third largest iron ore producer) for 16.5% stake**

Source: American Metal Market



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# LOOKING AHEAD, WHAT WILL IMPACT U.S. MANUFACTURING AND ITS COMPETITIVENESS

**Competition from emerging markets: both on the demand and supply side**

**Raw materials availability**

**Rising U.S. costs associated with energy, health care, regulation**

**Environmental Concerns – Greenhouse gases**