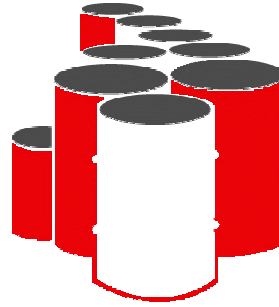


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For Immediate Release
June 2, 2008

MARKET UPDATE

In an advisory earlier this year, we commented on the elements of what we described as a “perfect storm” that contributed to a chaotic pricing environment for steel, including cold-rolled steel used to manufacture steel drums and pails. Elements of this storm included operational developments in steelmaking, the falling dollar, and rising prices for iron ore and scrap metal. Since our alert in January, this “perfect storm” has gathered strength and developed sustained winds that continue to wreak havoc and uncertainty in the marketplace – not only for steel, but more recently for a broad range of raw materials that are essential to industrial package manufacturing.

For steel, SSCI member manufacturers continue to face unprecedented costs for cold-rolled steel with suppliers quoting prices as much as \$1,300 per ton for delivery in July – about twice the cost in January. Some steel observers are forecasting that the July price is a peak and that the cost of steel later in the summer will stabilize before starting to decline somewhat in the fall. However, there are no assurances in these predictions since the cost of steel has reached unprecedented levels at a time when the U.S. housing and the auto industries –the two largest users of steel – are essentially in recession. World-wide demand for steel will continue to pressure pricing. This is new territory for our economy.

In recent days, the impact of equally unprecedented energy costs has resulted in significant price increases for raw materials used to make non-steel industrial packaging products. Producers of such raw materials as polyethylene and polypropylene announced price increases to recoup energy costs that no longer can be absorbed. One large international chemical company recently announced that it has raised prices for all its products world-wide – a nearly unprecedented development according to industry analysts. This firm noted its oil- and gas-related costs in the first quarter were up 42 percent from a year earlier and it would have to pass along some of this cost to its customers.

Some economists believe that the increases in energy and raw materials costs that the nation has experienced in recent times are structural in nature and will result in new price floors going forward. The growth of the so-called BRIC (Brazil, India, Russia, and China) economies has resulted in a burgeoning middle class whose higher standard of living has citizens of these countries purchasing automobiles, electronics, and housing that raises demand for the world’s finite natural resources.

Steel drum manufacturers continue to work with customers to address their packaging needs in the face of unprecedented challenges. The option of considering alternative packaging has become more problematic for customers due to the fact that the cost of natural gas and petroleum-based raw materials continue to rise due to world-wide demand.

