83rd Session of the OECD Steel Committee - Chair's Statement

Tentative and vulnerable recovery, amidst excess capacity and market distortions

Statement from Lieven Top, Chair of the OECD Steel Committee
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The Committee:

- welcomed the modest recovery in the global steel market, but alerted that considerable structural imbalances remain acute;
- noted sluggish long-term demand growth and reiterated the urgency of addressing supply by effectively reducing excess capacity by enhancing market function;
- welcomed the ambitious commitments to fight excess capacity made by G20 Leaders in the Hamburg Summit, and stressed the importance of developing by November 2017 concrete policy solutions to enhance market function and reduce excess capacity in the context of the Global Forum on Steel Excess Capacity, as the basis for swift and tangible policy action;
- reiterated concerns about the high level of trade tension and stressed the need to fight protectionism, including all unfair trade practices and recognised the role of legitimate trade defence instruments in that regard;
- called for the removal of market distortions created by direct and indirect forms of government market-distorting subsidies and other support to the steel sector, including through state enterprises; and
- exchanged views about challenges as well as opportunities in the steel sector brought by automation and digitalisation, including its impacts upon workers.

Steel markets advance towards recovery, but structural supply-demand imbalances and financial vulnerabilities remain unaddressed

The global economy has recently grown at its fastest pace since 2010, helped by policy support, with the upturn becoming more synchronised across countries and accompanied by employment gains in some regions and a budding recovery in trade growth. Global GDP growth is projected to be around 3.5% in 2017 and 3.7% in 2018 in the September Interim Economic Outlook. However, strong and sustained medium-term global growth is not secured. Risks to the outlook include policy uncertainty, rising vulnerabilities in financial markets, weak wage growth and persisting inequality, and the extent to which growth in the emerging market economies can return towards past norms.

Steel market conditions have improved moderately in 2017 and there are signs of recovery in several markets, with world steel production growing by 4.3% during the first half of 2017, when compared to the same period in 2016. With uncertainties surrounding the global economy receding and investment climate improving, the uptick in steel demand seems more synchronised across regions. Although production is up by 4.3% in the first half of 2017, the World Steel Association's preliminary assessment suggests that in 2017 and 2018 actual demand growth for steel will not eliminate concerns about the supply-demand imbalance.

It is, however, uncertain whether the recovery is sustainable, in light of headwinds related to the slow pace of adjustment of capacity to demand, the challenges for workers, trade friction in international steel markets, and financial vulnerabilities. Further, the current developments in the global steel market are thought to be driven mostly by cyclical factors, as the structural forces that drive steel demand growth continue to remain weak. Combined with the long term trends that weigh on steel use — ageing population, digitalisation, climate change and circular economy impact, excess capacity will continue to remain a profound challenge for the industry. Forecasts by external experts suggest that steel demand could reach only 1.87 billion metric tonnes in 2035, which would be 0.49 billion metric tonnes or 20.1% below the latest steelmaking capacity level expected for 2017. The Committee also discussed the impact of raw materials costs and the implications of megatrends for workers, including skills needed in the future.

Global steelmaking capacity declines slowly, and excess capacity remains at alarmingly high levels

Global steelmaking capacity is showing some signs of slow adjustment to lower levels of demand, according to the latest information available to the OECD Steel Committee Secretariat. This modest adjustment falls well short of alleviating global excess capacity significantly. Excess capacity remains a major challenge to the global steel industry, with implications for the financial and economic sustainability of the sector and international trade. The Committee reiterated the urgency of addressing the excess capacity problem, including by removing any forms of market distorting government support that result in capacity additions or barriers to capacity closure, by enhancing market mechanisms in the steel sector. Moreover, the Committee reiterated the importance of providing effective programmes for steel workers affected by structural adjustments.

The OECD has marginally revised downwards its 2016 figure for world crude steelmaking capacity from 2 380.7 million metric tonnes (mmt) to 2 369.5 mmt, to incorporate closures that were not taken into account previously. The net capacity change in the first half of 2017, i.e. taking into account new capacity additions and closures in OECD and non-OECD economies, brings current global steelmaking capacity down to a level of 2 356.5 mmt, representing a slight decrease (-0.6%) from the level prevailing in 2016. Developments in steelmaking capacity have been evolving rapidly and there are some uncertainties and lack of information with respect to investment and closure information.

The Steel Committee welcomed the Statement from the Chair of the June 2017 OECD Ministerial Council Meeting that called for urgent, collective and effective action in order to address overcapacity across all affected sectors, including steel. Delegates further welcomed the July 2017 G20 Leaders' Declaration with its ambitious commitments to remove of market-distorting subsidies and other types of support by governments and related entities, and take the necessary actions to deliver the collective solutions that foster a truly level playing field.

The OECD Steel Committee looks forward to the development of concrete policy solutions by November 2017 that enhance market function and reduce steel excess capacity in the context of the Global Forum on Steel Excess Capacity, as basis for swift and tangible policy action.

Trade tensions remain high amidst important market distortions

Trade tensions continue in the global steel market, amidst persistent excess capacity, unfair trade practices and trade friction. World steel trade has contracted for the first time in 2016 since 2009. After growing at an average annual rate of 6.3% between 2009 and 2015, world steel exports contracted by 1.1% from 317 million metric tonnes (mmt) in 2015 to 313 mmt in 2016. Data for the first quarter of 2017 show that steel exports continue to decline. However, in certain major markets such as North America, Japan and the EU, steel imports increased significantly in the first half of 2017.

The Committee called for market forces to be allowed to operate to ensure fair trade in steel, reiterating that markets for steel should remain as open and free of distortion as possible. The Committee further agreed to enhance its monitoring of developments in steel trade and policies that distort trade, such as government support.

Direct and indirect forms of government support harming the steel industry

The Committee discussed the market distortions stemming from state ownership in the steel sector. State enterprises may benefit from different forms of preferential treatment that result in market distortions. In 2016, state enterprises accounted for at least 32% of global crude steel production. Firm-level data suggest that state enterprises in the steel sector are associated with poorer economic performances and higher levels of indebtedness compared to private enterprises. State enterprises, which are overwhelmingly present in emerging economies, have also contributed significantly to the increase in global steelmaking capacity, while achieving lower financial results than their comparable private counterparts.

Working towards greater transparency, the Steel Committee advanced in the creation of an inventory of the different forms of market-distorting subsidies and other types of support by governments and related entities (including state enterprises) affecting global and domestic steel markets. The Committee discussed the development of guidelines and best practices on government support for the steel sector, which could contribute meaningfully to alleviating excess capacity, ensuring a level playing field and reducing trade friction.

Related Documents

OECD work on steel