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DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE

DSTI/SU/SC/A(2008)2/REV1
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REVISED DRAFT AGENDA OF THE 65TH SESSION OF THE OECD STEEL COMMITTEE AND THE JOINT OECD/MALAYSIA/WORLD STEEL ASSOCIATION WORKSHOP ON STEEL AND RELATED RAW MATERIALS

The meeting will be held on 15-16 December 2008, Hotel Nikko, Kuala Lumpur, Malaysia starting at 08.45 on the first day

Delegates will find attached the revised draft annotated agenda for the 65th session of the OECD Steel Committee and the agenda for the joint workshop on Steel and Related Raw Materials.

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DRAFT AGENDA OF THE JOINT OECD/MALAYSIA/WORLD STEEL ASSOCIATION

WORKSHOP ON STEEL AND RELATED RAW MATERIALS

Monday 15 December

08.45 **Opening of the Workshop**

Welcoming remarks by the Steel Committee Chairman and the Representative of the Malaysian Government

09.15 ***Session 1*: Main tendencies and issues of the day**

- The financial crisis and its impact on the global economy
- Steel and the Financial crisis: recent developments and outlook
- Steel raw materials: hit by market free fall but will they soon be scarce and expensive again?
- Ferrous scrap: a raw material of a "different sort"
- Seaborne transportation – at what price for the steel industry?
- Looking ahead – long-term forecasts

13.30 **Lunch (provided)**

14.30 ***Session 2*: Raw material supply – Managing the unmanageable?**

- Balancing supply and demand for raw materials – the mining and recycling industries
- Gaining insight into securing strategic and stable raw material supply – actions by global and non-global steel producers

18.00 **Close of first day**

Evening **Dinner hosted by MITI and MISIF**

Tuesday 16 December (a.m)

09.00	*Session 3:* **Policy dimensions in steel raw material markets – policies pursued by governments**
12.30	**Closing remarks by the Chairman, the Malaysian Government representative and the OECD Secretariat**
13.00	**Close of workshop**
	Lunch (provided)

DRAFT AGENDA OF THE 65TH SESSION OF THE OECD STEEL COMMITTEE

Tuesday 16 December (p.m.)

14.30	**1. Adoption of the Agenda**	DSTI/SU/SC/A(2008)2
14.35	**2. Approval of the summary record of the 64th meeting**	DSTI/SU/SC/M(2008)1
14.40	**3. Election of officers**	
14.45	**4. Secretariat statement, including work on the OECD Innovation Strategy**	SG/INNOV(2008)2 & SG/INNOV(2008)2/ANN1
15.00	**5. Employment developments in the steel sector** • Examination of recent trends in employment (*note by the Secretariat*) • Trade union perspectives on the current situation (*report by the International Metalworkers' Federation*)	DSTI/SU/SC(2008)32
15.30	**6. Common policy approaches to alleviate trade distortions in steel** • Discussion on how governments could develop common policy approaches to mitigate trade distortions in steel, especially in the context of the financial crisis	DSTI/SU/SC(2008)33
16.00	**7. Consideration of Chairman's statement on the steel market**	Room Document
16.20	**8. Dates of future meetings**	
16.25	**9. Other business**	

Restricted to government officials from OECD member countries, the European Commission and Chile

16.30	**10. Review of Chile in the context of its OECD accession process**	
	a) Report on Chile's steel and related raw materials industries (*presentation by Cochilco – the Chilean Copper Commission*), followed by questions from Delegates	DSTI/SU/SC/ACS(2008)1

Restricted to government officials from OECD member countries and the European Commission

17.30	*b)* Discussion on the coherence between Chile's policies and those of the Steel Committee members	
19.30	**Dinner reception for Steel Committee participants and observers (hosted by the OECD)**	

JOINT OECD/MALAYSIA/ WORLD STEEL ASSOCIATION

WORKSHOP ON STEEL AND RAW MATERIALS

ANNOTATIONS

Purpose of the workshop

This workshop provides a unique possibility where at a very critical moment for the world steel industry governments and industry will review and discuss current steel and steel-related raw material market developments influenced by the consequences of the financial crisis presently hitting the world economy. It also aims to build a broader understanding of the raw material markets and to explore ways and means to improve the functioning of these markets to ensure secure, predictable and accessible supply of steel raw materials while highlighting win-win opportunities for all.

Organisation of the Workshop

The workshop will be organised in three sessions:

Session 1 Main tendencies and issues of the day

Session 2 Raw material supply managing the unmanageable

Session 3 Policy dimensions in steel raw material markets – policies pursued by governments

For each of the sessions more than three hours have been allocated. Of this time, at least one hour will be for discussions on issues to be raised by speakers, the audience or points mentioned in the following annotations.

Session 1. Main tendencies and issues of the day

The financial crisis and its impact on the global economy

A member of the OECD's Economics Department will inform delegations on the current financial crisis and its consequences spreading beyond the financial sphere throughout the globe.

Steel and the financial crisis: recent developments and outlook

The starting point for the workshop will be the provision of information and discussion of developments in world steel demand on a global and regional basis and the subsequent demand by the steel industry for the necessary steel raw materials. Particular emphasis will be put on the sudden mid-2008 reversal of a six year-long trend, characterised by strong demand growth and rising prices. Despite production cuts by some steelmakers, supply now exceeds demand and prices have fallen sharply. A global overview of the world's steel industry will be provided by the OECD Secretariat while regional developments are expected to be provided by regional steel associations. Regional reports should cover past and future steel demand/production trends in that specific region, how the steel industry is coping with the crash and what this implies(ied) for the industry's raw material requirements. In addition, any information as regards trade developments and other problems experienced as well as whether the steel industry has had problems in the past in securing the necessary raw materials and, if so, how they impacted upon the steel industry, would certainly be welcomed.

Possible issues for discussion

- To what extent has the long-term steel outlook changed? Many steel producers are pinning expectations on the idea that demand in developing regions will grow fairly fast, driven by the need for new infrastructures such as roads and railways. To what extent is this really realistic? Or does the recent rapid slide in prices confirm that the world no longer has a strong appetite for steel, as, in particular, construction activity in most parts of the world weakens and automobile makers are forced to cut output substantially. As a grim situation unfolds with frightening speed, are steelmakers bracing themselves for overcapacity by year-end? Will they be left with no option but to accelerate production cutbacks and/or will prices be cut further to support sales?

- Will the economic uncertainty lead to increasing consolidation in the steel industry as weaker companies succumb to financial market pressures by going out of business or by merging with stronger competitors? Will this consolidation be more on a local or global level?

- Will the present downward trend in steel consumption worldwide lead to a change in trade flows and increase the use of trade remedies? Will export tax rebates be introduced to boost slumping export sales and will tariffs on steel be raised to protect domestic producers?

- It is broadly accepted that it is increasingly difficult to obtain financial credit and expensive to increase steel making capacities by expanding existing capacities or installing new mills. Will steel makers profitability be high enough to fund already agreed upon massive capital spending programmes? Has the critical situation of the capital markets and the resulting uncertainty as regards future developments of the global economy already caused delays in decisions to invest in new plants?

Steel raw materials: hit by market free fall but will they soon be scarce and expensive again?

- Iron ore

- Coking coal and coke

- Ferroalloys

Each of the three principal raw material markets is rather different and governed by rather different players and/or regulations. A separate factual report for each of these commodities will be produced. Such reports, to be provided to the extent possible by representative industry organisations, should cover present and future origin and destinations of the raw material, ownership structure, infrastructure and competition issues, price developments and the reasons behind all these developments as well as how the industry has reacted to the sudden mid-2008 downturn in demand. Furthermore consolidation of producers in each major raw material group as compared to consolidation of the steel industry should be addressed. Competition regulatory reviews of consolidation in both steel raw materials and steel should also be noted. The reports should also establish and take stock of policy issues pursued by importing and/or exporting countries such as government interventions in the raw material markets, export restraints or taxes on exports, environmental regulations that affect the availability of raw materials, as well as other regulatory and restrictive policy issues.

Possible issues for discussion

- The mining industry has also seen recently a flurry of consolidation activities, the likes of which has not been seen for many years. Mergers and acquisition are creating new players in traditional mining countries. Does the changing scene mean sharper competition among mining companies? Will declining prices lead in the long run to future consolidation in the iron ore market?

- Could it be that by delaying new production capacities on a global level due to the financial crisis and the squeezing of marginal producers demand will soon exceed supply and prices for raw materials will recover relatively quickly?

- During recent years, supply has struggled to keep pace with demand. Does this reflect the impacts of: infrastructure availability, regulatory policies such as permitting and approval processes largely resulting from barriers to investment, costs and availability of key inputs, including skills, investment size and most importantly ore/coal bodies to develop?

- The mining industry size, structure, location, technology and the role of external stakeholders have all changed. What kind of changes will the next generation witness?

- There is growing concern about environmental and social impacts of development. To what extent will/could social and environmental goals override economic ones?

- Equally remarkable are longer-term changes to the mining business environment now taking place. The impact of the Chinese economic development on the global minerals and energy sector is unprecedented. Will the growing importance of India bring further changes?

Ferrous scrap – a steel related raw material of a "different" sort

From the perspective of the steel industry, the substantial past rise in prices of steel has been justified by the strong price increases of many steel inputs, among others steel scrap which affects in particular the mini mill sector. Importers as well as exporters of scrap are to be found in developed and developing countries alike, and a large number of economies are both importers and exporters of scrap. As developing countries' steel and manufacturing industries mature, recycling will become more important to the lifecycle of their steel production. Also efficiency and future supply of recyclable materials is important to the future of steel as sustainable "green" material and to achieving increased reduction in per ton carbon emission in the global sector.

The report should also include an examination of procedures and regulations governing trade in scrap. Among major exporters of scrap some of them exercise restrictions on ferrous scrap exports which serve to maintain scrap supply for their domestic steel industries but major problems are also being reported with market access for scrap exports due to difficult and non-transparent licensing procedures in major importing economies. Waste management and scrap-related legislation, but also undeveloped or underdeveloped scrap collection schemes by the recycling industry, act as barriers to recycling efforts.

Possible issues for discussion

- Towards the end of 2007 scrap metals prices were estimated to increase by over 50% to 2008, however with the first signs of a darkened macroeconomic outlook prices on the scrap market started falling: what is the present forecast? Where is the market heading?

- Driven primarily by an increase in EAF production and by the strong demand for steel from Asia and emerging markets, imports of scrap metal have become a significant component for the steel industry in certain countries. Key import markets for ferrous scrap include United States, Turkey, China, Spain and South Korea. Will they also be in future the leading importers or is there any likelihood that new importers will appear on the market?

- Looking at exporters of scrap (currently, the United States and Europe are the largest), what is the likelihood that new sources will appear such as East Mediterranean countries, North African countries and even East and West African countries?

- A very large number of economies maintain restrictions on their scrap exports through quotas and other export restrictions in order to protect their domestic steel industries. To what extent, in view of the industry, have these barriers distorted trade in scrap and thereby raised scrap prices?

Seaborne transportation – at what price for the steel industry?

A particular spotlight will be placed on the situation and outlook for bulk shipping markets as soaring shipping rates drove, prior to early 2008, delivered prices of steel raw materials to levels significantly higher than the prices received by the producers of the raw materials. However since early summer 2008 bulk shipping rates have plummeted. Issues to be covered will include an analysis of freight rate developments, the structure and volume of the global shipping fleet as well as the supply and demand of dry-bulk vessels.

Possible issue for discussion

- The current credit crunch in the global financial markets makes it difficult for shipping companies to raise finance in order to buy new vessels. In light of this, could it be envisaged that not the entire order book for the coming years will be delivered and significantly less bulk carriers will be ordered, which would push freight rates again to a higher level in the foreseeable future?

Looking ahead – will the global supply of raw materials be sufficient to meet increased demand?

Taking into account the information provided for this workshop and information available elsewhere, this session will be closed with a report on the balance between global supplies of raw materials and future demand from the steel industry.

Possible issues for discussion

- How will future steel production be affected by the supply of raw materials?

- Where will the raw materials come from?

- At what price and under what conditions will they be available to the steel industry?

Session 2. Raw material supply – managing the unmanageable?

The purpose of this session is to invite industry representatives to inform the workshop of the policies/strategies they pursue in order to respond to changing market situations.

Meeting the challenge of raw material supplies

The Mining Industries

In view of the surge in demand for steel raw materials, mining companies in all parts of the world made significant efforts to respond by raising production and by investing in additional capacities. This was occurring not only in "traditional" mining countries but also in other regions of the world where mining is not yet an established industry and where the state is often involved, imposing overbearing or inefficient regulations. However, at present steel is being hit by a market free fall: how is this perceived by major mining companies? What is being done by mining companies to respond to demand variations? Are production and marketing strategies changing in view of changed market developments? What are the prerequisites for a sustainable production for the mining companies in order to make a clear contribution to economic development in the areas where the mining takes place while at the same time helping to address raw materials challenges on the global market?

Possible issues for discussion

- The present financial crisis makes it undoubtedly harder to finance new mines. How are mining companies dealing with the effects of the present crisis? Have companies been forced to halt expansion projects and/or cancel investments in new projects?

- There is growing concern about environmental and social impacts of development in mining; economic goals can not automatically displace social and environmental goals. How do mining companies deal with these issues?

- To what extent could investments in operational improvements and efficiency savings affect input costs?

- One of the challenges to individual mining companies in developing new coal and/or iron ore mines is to acquire the skills for a highly technological mining operation. What is being done by individual companies to achieve this? Are they running special educational and/or training courses?

- Is the existing price negotiating mechanism between buyers and sellers of coal and/or iron ore a fair mechanism to set world prices for these commodities? Will there be a shift towards more flexible pricing arrangements in the future? Are index-linked pricing contracts envisaged by mining companies?

The Recycling Industry

The creation of secondary raw materials via recycling has increased tremendously in recent years and national/international recycling companies nowadays perform essential economic and environmental functions. Demand for ferrous scrap is truly global but supply is hampered by various factors like, *inter alia*, trade barriers, legislative burdens, inefficient or non-existent scrap collection systems, etc. How are recycling companies reacting to these factors and the pre mid-2008 unprecedented boom in demand for ferrous scrap? Despite past and ongoing improvements what else could possibly be done by the industry to make more scrap available in developed and developing economies?

Issues for discussion

- The pace of scrap market consolidation has accelerated during past years with larger companies seeking out small and medium size companies to acquire. Will this be an ongoing trend? Could it be assumed that the primary reason for this tendency towards consolidation is that companies invest to meet increasingly onerous environmental targets?

- The consolidation and restructuring in the steel industry world wide is assumed to lead to a more stable pricing environment. Could this in turn also lead to limiting the volatility of scrap prices in future?

- Steel mills continue to demand higher quality scrap. Will this give scrap processors an extra incentive to be proactive in their businesses; *i.e.* offering a host of services to the steel mills, as opposed to just delivering scrap to their consumers?

Gaining insight into securing strategic and stable raw material supply - actions by global and non-global steel producers

Faced with strategies pursued by steel raw material suppliers the steel companies be they global or non-global players pursue their proper strategies to secure adequate supply of raw materials. Some secure raw materials by such means as concluding long-term quantity contracts and/or upstream integration (scrap, coal, iron ore, ferroalloys) by acquiring or developing new sources of raw materials while others primarily rely on spot markets and bundling purchases. Most steel producers seek improvements in energy consumption (coking coal), innovation, the usage of up-to-date technologies, as well as improvements in recycling. Company representatives are expected to inform about production and marketing strategies they have adopted in a changing raw materials world.

Possible issues for discussion

- To what degree will the global credit crunch affect investment by steel companies in mining? Have projects already been postponed or even cancelled?

- As steel companies are trying to vertically integrate via the acquisition of coal and/or iron ore mines, will this not tighten the market even more and thus endanger potential supply of coal and/or iron ore for smaller steel mills not being able to acquire such mines?

- Are captive raw material sources a precursor to making investments in steel production capacities?

- To what extent, if at all, is the steel industry involved in the collection or treatment of scrap and does thereby control the availability of scrap?

- What could be core elements of steel mills’ procurement strategies besides long term supply agreements and a continuous expansion of the supplier portfolio?

Session 3. Policy dimensions in steel raw material markets – policies pursued by governments

Governmental delegates are expected to inform participants about policies they pursue as regards the management of raw material supply for their steel industries. In particular, they are requested to discuss the consistency of their policies with WTO norms and rules. Sustainability and the avoidance of wasteful, environmentally degrading practices might also be emphasised as well as the effects these policies have for the country implementing them as well as their effects globally on prices, supply availability and competitiveness.

Ensuring a secure, predictable and accessible supply of steel raw materials for steel industries is increasingly becoming a top policy priority for all governments concerned. However, the policies pursued by certain already industrialised countries, which have no or very limited access to an indigenous supply of raw materials, differ significantly from those pursued in some emerging and developing economies that have an indigenous but still insufficient supply to fully satisfy internal demands. Some industrialised countries, reaffirming their commitment to the principles of free trade and a strengthening of the multilateral trading system, call upon their trading partners to refrain from restraints on trade and competition. At the same time, these countries do not always follow a coherent policy vis-à-vis raw material availability; for example they ensure a strong supply mechanism for scrap but, due to overriding environmental considerations, have to pursue measures leading to a scarcity of coke.

On the other hand, some emerging and developing countries, given the strategic importance of the steel industry for their industrial production and economic growth, believe that they have a role to play with respect to state owned or state sponsored facilities and consequently consider it essential to provide policy assistance including restrictions on exports and other regulatory measures. In addition, there are a very limited number of raw material exporting countries which use their resources as bargaining tools for development purposes.

Following information provided by Delegations at this session, the Moderator will initiate a discussion involving to the maximum extent possible all participants in the workshop - on how to ensure availability, security and open trade of steel raw materials. Given the complexity of these issues this discussion can only cover a very limited number of problems, though it should be possible to achieve, *inter alia*, a better understanding of the different approaches and open the door to ensuring security of raw materials supply for all players. While the WTO is the appropriate venue for rules on trade, Delegations might wish to explore to what extent the OECD Steel Committee could be used for policy co-ordination or statements in support of free trade and competition in raw materials. Delegations wishing to provide background material as well as position papers on the issues below are encouraged to do so.

Possible issues for discussion

Market distorting measures

- Do regulatory policies such as export quotas, export taxes and export licensing, but also the promotion of imports, reduce the well being of the global steel industry, provide subsidies-like support, and lead to undesirable trade conflicts? To what extent are such measures really necessary?

- Do such regulatory measures serve their intended purposes and can it be envisaged that these will be phased out within a foreseeable timeframe or even be strengthened in view of the effects of the financial crisis? What can be done to create a global level playing field for access to raw materials for the steel industry? Could there be a role for the OECD in that regard?

Barriers to investment in mining

- Barriers to investment and government intervention involving burdensome regulatory barriers limit a rapid and adequate supply side response to changes in demand. How could such measures be addressed in an efficient and pragmatic manner?

- Would transparency and anti-corruption efforts such as the Extractive Industries' Transparency Initiative be helpful? Would they lead to an increase in the number of players/producers in the three main raw material markets?

- How can win-win co-operation be fostered between demand and supply countries? Would it be possible to develop some common principles and guidelines that apply to the international mining sector?

Environmental features surrounding the availability of raw material supply

- In addition to mining, ensuring raw material supply requires a well functioning recycling industry and sufficient availability of coke. Implications of waste management oriented laws and bureaucratic burdens as well as the lack of efficient scrap collection schemes often act as barriers. What is the impact of the international waste management policy on the world recycling industry?

- What needs to be done by governments and industry to enhance recycling, taking into account an environmentally sound management of recycling activities?

- How can countries carry out policies to enhance the environmental performance of the steel sector while not distorting competition?

- There have been, primarily in Europe and the United States, closures of substantial coking capacities, mainly due to the environmental costs of operating such facilities. This has accentuated the dependence of the industry on a very limited number of suppliers. To revive coke production could a temporary moratorium on some environmental regulations be envisaged? Could, for the coke sector in the EU, a temporary exclusion from the EU emission trading system be considered?

THE 65TH SESSION OF THE STEEL COMMITTEE

ANNOTATIONS

Item 1. Adoption of the Agenda **DSTI/SU/SC/A(2008)2/REV1**

The Committee is invited to **adopt** the agenda for this session of the Steel Committee.

Item 2. Approval of the summary record of the 64th meeting **DSTI/SU/SC/M(2008)1**

The Committee is invited to **approve** the summary record of the 64th session.

Item 3. Election of Officers

In line with the revised rules of procedure of the Organisation [C(2007)14/FINAL] agreed by Council on 17 April 2008, the Chair, Vice-Chairs and other bureau members shall be designated for the coming year at the last plenary meeting of the body concerned, rather than at the first meeting of the year. The term of office for the members of the bureau shall begin on 1 January 2009. The Committee is invited to **elect** a new Bureau.

Item 4. Secretariat statement, including work on the OECD Innovation Strategy **SG/INNOV(2008)2 & SG/INNOV(2008)2/ANN1**

The Secretariat will report on the work of DSTI and broader developments within the Organisation, including progress made with the OECD Innovation Strategy. The Committee will be asked to discuss its possible contribution to the Strategy. The Secretariat will also inform the Committee about OECD Council decisions as regards the Steel Committee's mandate and Programme of Work and Budget.

Item 5. Employment developments in the steel sector **DSTI/SU/SC(2008)32**

The Steel Committee's mandate and its programme of work for 2007-08 call for continuous monitoring of trends in employment, input costs, productivity and other aspects of competitiveness affecting the steel sector. The Secretariat will introduce a document that examines the changes occurring in steel-sector employment, taking into consideration the restructuring process that is taking place in the industry. Following this introduction, trade union representatives will be invited to share their perspectives on the employment situation, possibly taking into account issues such as productivity growth, working hours, worker pay, employment practices, and worker health and safety. Delegations will be invited to exchange views on important employment developments in their economies. The Secretariat will submit a room document with a list of questions which could be used as a basis for discussion.

Item 6. Common policy approaches to alleviate trade distortions in steel DSTI/SU/SC(2008)33

A paper on transparency and reporting will be made available as background information. This agenda item will be an opportunity for a discussion on how governments could develop common policy approaches to mitigate trade distortions in steel, especially in the context of the financial crisis.

Item 7. Consideration of a Chairman's statement on the steel market Room Document

Based on the outcomes and conclusions of the Steel Committee meeting and Workshop on Steel and Related Raw Materials, the Secretariat will prepare a summary on the current situation in world steel markets. Delegations will be invited to review the room document and make necessary changes. The modified document will then be used as a Chairman's statement to the press.

Item 8. Dates of future meetings

The Secretariat will suggest dates for the 66th and 67th sessions of the Steel Committee.

Item 9. Other business

Participants will be invited to inform the Committee of any other business.

Item 10. Review of Chile in the context of OECD accession DSTI/SU/ACS(2008)1

Please note that the following item is restricted to government officials from OECD member countries, the European Commission and Chile

a) Members of the Steel Committee are called upon to review Chile's policies in the area of steel and related raw materials, in accordance with the Roadmap for the Accession of Chile to the OECD Convention. Under this item, the Chilean Copper Commission (Cochilco) will present their background report on Chile's steel and raw material industries [DSTI/SU/ACS(2008)1]. Delegates will be invited to ask questions and discuss the background report.

Please note that the following item is restricted to government officials from OECD member countries and the European Commission

b) Delegates will be invited to express a formal opinion on the coherence of Chile's policies with those of the Steel Committee's members.