

Economic Stimulus Packages and Steel: A Summary

Steel Committee Meeting
8-9 June 2009

Sources of information on stimulus packages

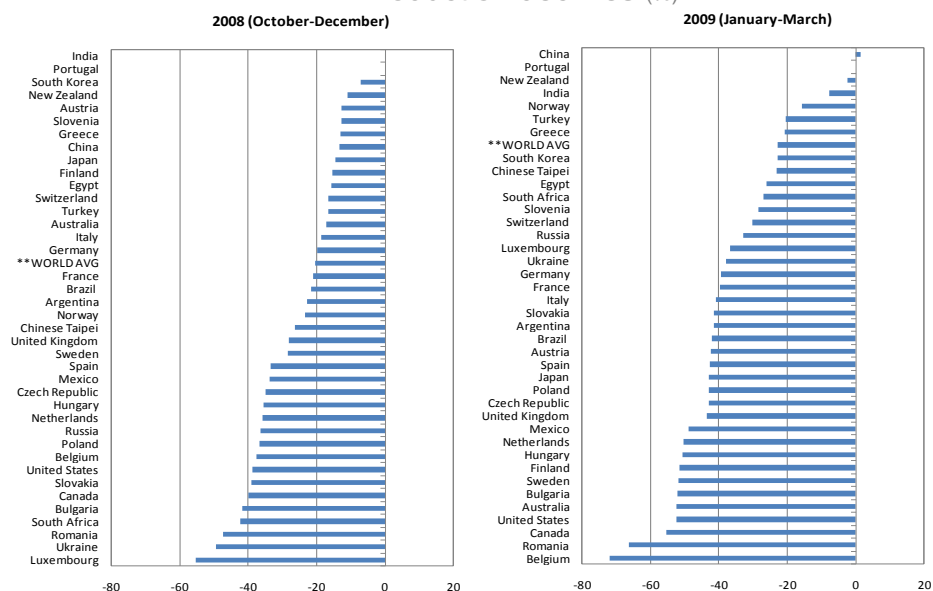
- Questionnaire to Steel Committee members, full participants and observers
- A total of 23 responses received
- Information collected from other sources on economic stimulus:
 - OECD Economic Outlook, Interim edition, March 2009
 - DSTI-wide questionnaire on the “Integration of Long-Term Growth Concerns in Policy Responses to the Financial Crisis”
 - Media sources

Format of the questionnaire

- The impact of the economic recession on the steel industry:
 - Production, consumption, prices, employment, and trade
- Main features of the stimulus packages
 - Size, timing, broader objectives
- Effects of the stimulus on steel
 - Indirect: support for steel-using sectors (infrastructure/construction, automotive, other industries)
 - Generally available measures (e.g., labour market measures for industry) and steel-specific provisions in the packages
 - Steel-specific measures (direct government support/bailouts, etc.)

1. Impact of recession on steel industry

Production declines (%)





Consumption: June-December 2008

- Across Europe, some countries saw consumption fall by 20-50% or more between June and December 2008, some by even more
- In North America, U.S. consumption fell from 9.1 mt in June 2008 to 5.2 mt in December.
- Chinese consumption down from 524 mt in June 2008 to 419 mt in December
- Chinese Taipei down from 15.9 mt (annualized) to 7.6 mt
- Russian consumption down from 4.1 mt to 2.9 mt.
- Most economies project consumption weakness in the first half of 2009



Prices: June to December 2008

- Europe: declines of 20-50%
- Russia: export prices down 60%
- Turkey: export prices down 46%
- Chinese Taipei: 50% fall in domestic prices
- United States: domestic price down 46%

Employment

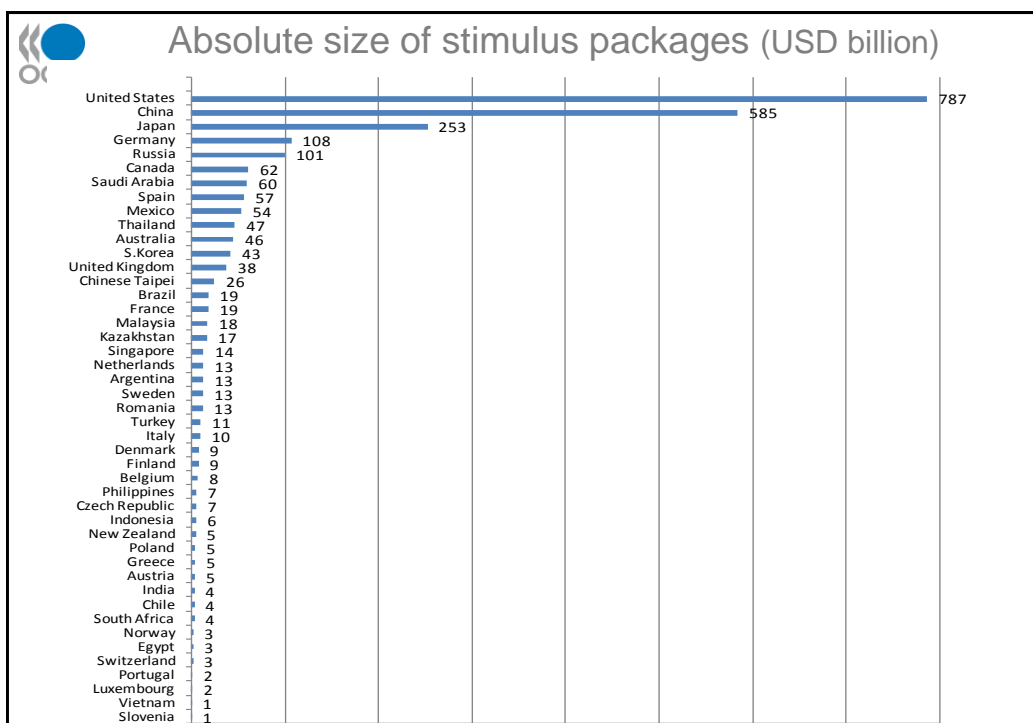
- North America is experiencing relatively pronounced effects in steel industry employment
- In Europe, employment has declined more gradually
- Turkey: employment relatively stable at end of 2008, but expected to fall by 10% by June 2009.
- In China, employment has fallen by 80,000 to 3.5 million

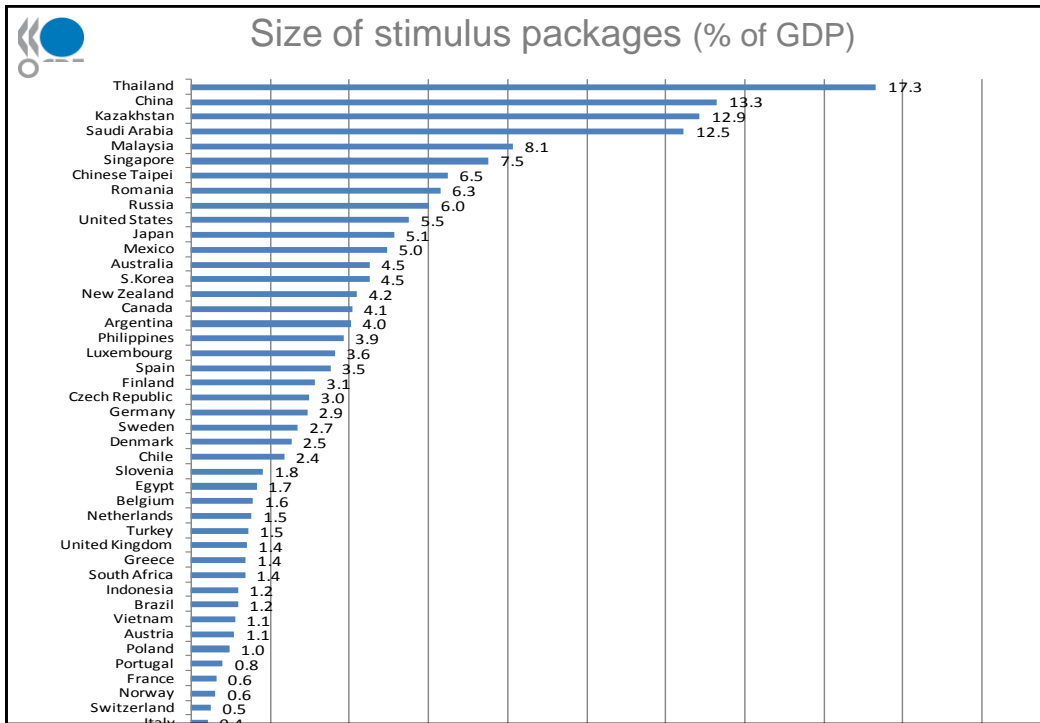
Trade developments

- China: net exports of steel declined sharply, especially in the second half of 2008
- Europe: many countries experienced falling export volumes in the last few months of 2008
- United States: exports peaked in 2008Q3, but then fell 28% in Q4

2. Main features of stimulus packages

- Most stimulus plans can be divided into three main areas:
 - Increased public investment (infrastructure, housing, education, health)
 - Stimulus aimed at the consumer (through a combination of reduction in income taxes, expansions of social security programs, transfers of cash, etc.)
 - Stimulus aimed at firms (corporate tax cuts, credit guarantees, support for retaining or hiring staff)
- Timing of the packages:
- For most countries, the time-frame of the fiscal packages is two years (2009-2010). However, the period is shorter for countries such as Japan, Italy, Norway, Turkey, Argentina, Chile, Indonesia, India, Indonesia, Singapore, and Vietnam, whose packages mainly cover 2009. Some economies (e.g., Chinese Taipei, Romania, and Thailand) have longer time-frames of 3-4 years.
- Approx. 50 economies have announced stimulus packages
- A total of USD 2.6 trillion
- Largest absolute spending in: United States, China, Japan, Germany and Russia, each allocating more than USD 100 billion





3. Importance of stimulus packages for steel

- Support for steel-using sectors:
 - Support for infrastructure and construction
 - Support for automobile consumers and producers
 - Measures to promote other steel-using industries
- General measures (available for all sectors):
 - Labour-market assistance
 - Promotion of R&D
 - Tax and financial measures
- Steel-specific/provisions linked to steel
 - Trade-related
 - Industry revival plan
 - Buy local steel

	Steel-using sectors				Provisions linked to steel
	Automobile	Infrastructure	Housing	Others	
Australia	X	X	X		
Austria	X	X			
Belgium		X	X		
Canada	X	X	X	Coast Guard vessels	
Czech Republic	X	X	X		
Denmark		X	X		
Finland		X	X		
France	X	X	X		
Germany	X	X	X		
Greece					
Hungary					
Italy	X	X	X	Energy-efficient appliances, furniture	
Japan	X	X	X	Household appliances	
S.Korea	X	X	X		
Luxembourg	X	X	X	Energy-efficient household appliances	
Mexico	X	X	X	Energy-efficient household appliances	
Netherlands		X	X		
New Zealand		X	X		
Norway	X	X	X		
Poland		X	X		
Portugal	X	X			
Slovak Republic	X	X			
Spain	X	X	X		
Sweden	X	X	X		
Switzerland		X	X		
Turkey	X	X		White goods	
United Kingdom	X	X	X		
United States	X	X	X		Buy domestic steel

	Steel-using sectors				Provisions linked to steel
	Automobile	Infrastructure	Housing	Others	
Argentina	X	X		Washing machines and other electrical appliances, bicycles, computers	
Brazil	X	X	X	Construction materials, electronic appliances	
Chile		X	X		
China	X	X	X	Electronic appliances	Steel industry revival plan, steel trade-related measures
Chinese Taipei	X	X	X	Electronic appliances	
Egypt		X			
India	X	X	X		Steelmaking raw material trade measures
Indonesia		X			Buy domestic steel
Kazakhstan		X			
Malaysia	X	X	X		
Philippines		X			
Romania	X	X			
Russia	X	X	X	Defense	Steel trade-related measures
Saudi Arabia		X			
Singapore		X			
Slovenia		X			
South Africa	X	X	X		
Thailand		X	X		
Ukraine					
Vietnam		X	X		

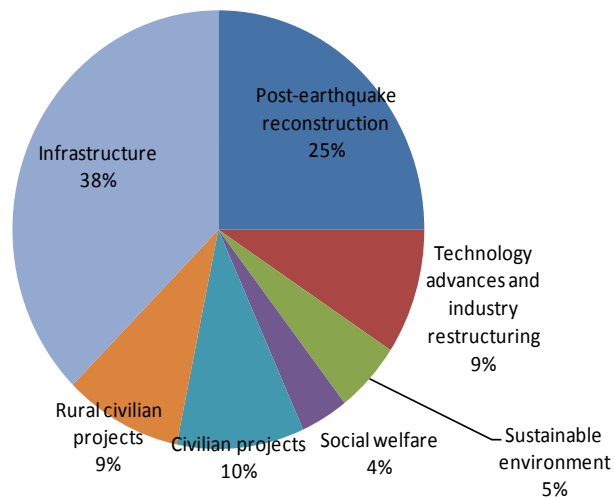
Infrastructure

- Most infrastructure projects focus on building and improving roads, bridges, railways, waterways, and airports.
- Investment in education and health
- Energy efficiency and renewable energy

Examples of infrastructure plans in Asia

Economy	Total fiscal stimulus (2008-2010)	Public investment
Japan	USD 253 billion ²	Revolution in transportation and infrastructure; development of infrastructure for cooperation between regions and for the enhancement of the competitiveness of regions; disaster management and safety measures
S.Korea	USD 42.7 billion	Building infrastructure aimed at revitalizing regional economies such as culture institution, erecting more dams, repairing riverbanks etc.
China	USD 585 billion	Speeding up rural infrastructure construction; accelerating the expansion of railways; airport constructions in western province; upgrading power grids; greater spending on health and education in rural areas; enhancing the construction of sewage and waste treatment facilities.
Chinese Taipei	USD 25.5 billion ³	Stimulus package to invest an additional TWD500 billion (US\$15.2 billion) in public infrastructure over the next four years. The additional infrastructure funding will be directed in part to the "i-Taiwan" 12 Infrastructure Projects. The 12 projects (announced before the crisis and valued at US\$133 billion over eight years) fall under four categories: transportation network, industrial development, urban and rural development, and environmental protection.

Distribution of China's fiscal stimulus



Effects of public investment on steel

- Most respondents noted that public investment in infrastructure would provide significant support to demand for steel
- China: public investment adds 80 mt of steel consumption
- Germany: 0.5 mt in 2009 and 1.6 mt in 2010

Effects of public investment on steel

- The proportion of stimulus being spent on infrastructure appears to be much higher in developing economies
- The total direct impact of public investment spending could be on the order of 130 million tons over the next two years, most in China

	steel use linked to investment	Tons of steel used per USD 1 bn of investment (PPP)	Total spending on infrastructure	Potential impact on steel consumption
Advanced countries	348 mmt	44,251	USD 378.1 billion	16.7 mmt
Emerging and developing economies	691 mmt	80,557	USD 565.8 billion	112.8 mmt
- of which China	326 mmt	123,186	USD 464.5 billion	100.9 mmt
- other developing and emerging	365 mmt	58,061	USD 101.3 billion	11.9 mmt
World	1039 mmt	66,867	USD 943.9 billion	129.5 mmt

Measures to support the automotive sector

- Reductions in taxes, especially for lower-emitting vehicles
- Improvements in credit availability for purchases of cars
- Vehicle scrapping schemes

Selected scrapping schemes in Europe

Country	Incentive	Vehicle age
Austria	EUR 1,500	> 13 years
France	EUR 1,000	> 10 years
Germany	EUR 2,500	> 9 years
Italy	EUR 1,500-5,000	> 9 years
Luxembourg	EUR 1,500-1,750	> 10 years
Portugal	EUR 1,000/ 1,250	>10 years / >15 years
Romania	EUR 900	> 10 years
Slovak Republic	EUR 1,000-1,500	> 10 years
Spain	Interest-free loan up to EUR 10,000	> 10 years/250,000 km
United Kingdom	GBP 2000	> 10 years

General measures available to all sectors including steel

- **Labour market measures**
 - Short-time working
 - Worker retraining
 - Reduction in fiscal charge for night and team work
- **Tax and financial measures**
 - Abolition of tax on credit insurance
 - Elimination of tariffs on imported machinery and equipment
 - Provision of export risk insurance
- **R&D and environmental measures**
 - Reduced fiscal charges on R&D activity



Steel-specific/provisions closely linked to steel

- Changes in duties on imports/exports
- Buy local steel provisions
- In China, the Adjustment and Revival Plan for the steel industry
 - Promote domestic steel use
 - Limit the capacity expansion
 - Increase the industry concentration ratio
 - Provide support to steel producers that consolidate, develop high value added products reduce emissions, and promote the use of domestic iron ore



Conclusions

- Few direct steel-specific measures in the stimulus packages
- The industry is benefiting indirectly from support to infrastructure, automobile and household appliance sectors
- Emerging and developing economies are investing more in infrastructure, and may see steel demand recover earlier than elsewhere