

OECD Steel Committee signals weak growth in global markets but stronger long-term prospects

The growth in global steel demand is expected to be slower in the coming decade than during the previous 10 years but longer term prospects are favourable, according to industry and government officials at the OECD's Steel Committee meeting in Paris on 6-7 December 2012.¹

Statement from Risaburo Nezu, Chairman of the OECD Steel Committee

The Committee:

- discussed the slow growth of global steel consumption observed in 2012 and expectations of moderate improvement for 2013;
- highlighted that the long-term prospects for steel as a material were favourable, but that the steel industry will face significant challenges in the medium term;
- exchanged views on the extent, causes and implications of excess steelmaking capacity and on industry and government approaches towards addressing this issue;
- noted the intensification of trade measures applied to steel, particularly non-tariff measures; and
- discussed the impacts of climate change policies on the competitiveness of the industry, and the prospects for further improvements in energy efficiency in the manufacture of steel.

Global steel demand and production has continued to slow

Global steel demand growth has been slowing from 9% year-on-year in the third quarter of 2011 to 2% in the third quarter of 2012, according to data from the Commodity Research Unit (CRU). This slowdown has been driven by a sharp demand contraction in Europe, and slower growth in Asia and North America. The yearly growth rate of steel demand in Asia has declined from 11% in the third quarter of 2011 to 3% in the third quarter of 2012, driven by weaker growth in China during this period.

The reduction in global steel demand growth has been driven by weakening industrial production in most regions. Industrial production in advanced economies decreased by 0.5% in the third quarter of 2012 compared to the same period in 2011, with negative growth rates registered in the euro area and Japan. Industrial production growth in the emerging economies has also been moderating since the beginning of 2011, to a growth rate of 5% in the third quarter of 2012 from 10% in early 2011.

In the first three quarters of 2012, world steel production reached 1533 mmt in annualised terms, representing a 0.6% increase from the same period in 2011. This marks a sharp slowdown compared to year-on-year growth of 8.6% in the first nine months of 2011. The yearly growth rate of Chinese steel production, which accounts for over 45% of the world's total steel output, declined to 1.7% in the first three quarters of 2012, down from 11.9% in the first nine months of 2011.

¹ The meeting was attended by representatives from OECD countries as well as Argentina, Brazil, China, India, Kazakhstan, Romania, Russia, Chinese Taipei, Ukraine and Vietnam .

The short-term market outlook has been revised downwards again

According to the latest OECD Economic Outlook, released on 27 November 2012, the global economy is weakening again driven by a significant drop in confidence. High and, in some countries rising, unemployment is further reducing confidence and spending. This is taking place against a background of deleveraging, simultaneous fiscal consolidation across countries and weakening global trade. While a recession is ongoing in the euro area, the U.S. economy is growing but at a pace below what was expected earlier this year. A slowdown is also taking place in many emerging market economies, partly reflecting the impact of the recession in Europe. After expanding by 3.7% in 2011, global GDP growth is forecast to decline to 2.9% in 2012, with a moderate gain in momentum to 3.4% in 2013.

According to the World Steel Association, world apparent finished steel use is expected to increase by 2.1% in 2012 and by 3.2% in 2013, following growth of 6.2% in 2011. Forecasts for 2012 and 2013 were revised downwards by 1.5 and 1.3 percentage points, respectively, compared to the April 2012 Short Range Outlook. In 2012, apparent steel use is expected to decrease by 0.3% in developed economies, reflecting a contraction of 5.6% in the European Union that is partly offset by growth of 7.5% in North America. In emerging markets, apparent steel use is expected to grow by 3% in 2012, with Chinese steel consumption rising by 2.5%. In Africa, Central and South America, and Other Europe growth rates for steel consumption are expected to be 5.8%, 3.8% and 3.8% in 2012, respectively.

The future of steel, as a material, is favourable but the industry faces big challenges

Participants debated the future of the steel industry, particularly issues related to long-term demand, industry competitiveness, material substitution, and how government policies can affect the future of the industry. Global steel demand is expected to reach 2.3 billion tonnes in 2025. This would represent a slowdown in average annual growth compared to the last decade, reflecting a lower contribution by China as its economy shifts towards more service-oriented GDP growth, modest growth in steel demand in advanced economies, and a lower intensity of steel use per unit of output in key downstream industries. Construction is expected to account for around two-thirds of the increase, due to demand for residential and infrastructure projects in emerging economies. Energy exploration and transportation needs will also be a significant driver of steel demand in the future. Material substitution remains a challenge but does not appear to be a major factor for future steel demand in most applications.

Regarding the competitiveness of the steel industry, most steelmakers have no immediate options to lower the costs of primary inputs (raw materials and energy) because, for the most part, they purchase these at market prices that they cannot influence. New sources of energy, such as shale oil and gas, will create opportunities for gas-based iron production. It may also add opportunities for improved efficiency and reduced emissions for all steelmaking technologies, with potential implications for the relative competitiveness of steel producers. Adding value to steel products is a way for steelmakers to differentiate themselves from competitors and also increase their competitiveness. However, high value-added steel products account for a limited share of steel demand and competition is intense in this segment. Further increases in operating efficiency will be another important way for steelmakers to enhance their competitiveness in the future.

The future health of the steel industry will also depend importantly on how open steel markets remain. The cyclical nature of the steel industry and the current high level of excess capacity, some of which is linked to market distortions, can lead to trade tensions particularly during market downturns. Government policies that keep inefficient segments of the industry in operation can lead to the adoption

of similar distorting policies in competing markets and, as in the past, exacerbate future downturns in the steel industry. Governments will need to work together to examine the role of State-Owned Enterprises (SOEs) in the steel industry, and foster policies that avoid preferential treatment for SOEs that would distort competitive conditions in the steel industry. Governments should also avoid WTO-inconsistent import substitution policies.

Excess capacity in the steel industry

The world steel industry currently finds itself with significant excess capacity, which could take many years to work off. Excess capacity is a global problem and can contribute to trade distortions. The reasons for excess capacity differ across regions. In certain cases, they are of a temporary and conjunctural nature linked to the slowdown of demand for steel, while they may be of a more structural nature when linked to continued – and frequently, government supported – expansion of capacity in some other regions. This suggests that there may not be a unique solution to the challenge. Delegates exchanged views on the extent of the problem, what kinds of barriers to closure exist in different countries, and how government approaches towards excess capacity differ. In particular, issues related to the social costs of closing mills, environmental and clean-up costs, as well as government support measures and trade policies were seen as important factors that can affect capacity adjustments. Delegates noted that excessive levels of steelmaking capacity will have important implications for the future health of the steel industry and potential for increased frictions in global steel trade.

The impact of energy efficiency and climate change policies on the steel industry

As a major, highly concentrated energy user and carbon dioxide (CO₂) emitter, the iron and steel industry has been subject to many energy efficiency and climate change policies, which differ considerably across regions. Large efforts have been made to improve energy efficiency in the steel industry, but significant additional emission reductions cannot be accomplished with today's steel manufacturing technologies. Breakthrough iron and steel-making technologies will also be needed. Future climate change policies will have important impacts on the steel industry's competitiveness if such policies are unevenly implemented in the world. Steel Committee participants agreed to continue to exchange information on climate change policies.

Steel trade policies

Over the past year and a half, world steel exports have remained relatively flat and have not yet reached their pre-crisis level. Following a few years of only modest increases in new trade remedy cases, it appears that the number of new antidumping (AD) and countervailing duty (CVD) cases is now increasing at a more pronounced rate, as are safeguard measures. Non-tariff measures in steel (NTMs) have also raised increasing concern for industry participants and policy makers over the past few years due to what appears to be an increase in their use. Delegates discussed problems related to NTMs, with a view towards increasing transparency and reducing the potential for trade distortion in this area. Delegates also welcomed the publication of the OECD's database on raw materials export restrictions.