

## **OECD Steel Committee signals growing uncertainty over industry outlook**

The outlook for the global steel market has become more uncertain, according to industry and government officials at the OECD's Steel Committee meeting in Paris on 5-6 December 2011<sup>1</sup>. Policies to support open markets for raw materials are key, they said.

### **Statement from Risaburo Nezu, Chairman of the OECD Steel Committee**

The Committee:

- discussed the slowing of worldwide steel production and demand and noted the rising uncertainty as regards future developments;
- discussed developments and challenges related to the availability of steel raw materials;
- noted that in spite of increasing demand for steelmaking raw materials, no overall physical shortages could be foreseen, though short and medium-term shortages are still possible due to unexpected demand increases;
- highlighted the mutual interest in policy approaches to support open markets for raw materials;
- agreed that the steel industry is expected to play a significant role in mitigating climate change and discussed developments related to carbon capture and storage (CCS); and
- exchanged views about recent developments in trade and policy measures, which continue to be applied in the steel sector.

### **Global steel demand and production growth slowing in 2011**

World steel production and demand growth has slowed in 2011. In the first three quarters of 2011, world steel production reached 1514 million metric tonnes (mmt) in annualized terms, representing a 9% increase from the same period in 2010. In China, in the first three quarters of 2011, steel production increased by 12% to 703 mmt annualized. World finished steel consumption increased by 7% in the first three quarters of 2011 compared to the same period of the previous year. This marks a slowdown in consumption growth from the 15% pace observed in 2010. Annual growth rates of steel consumption from January to September 2011 stood at 6% in North America and Europe, 11% in the Commonwealth of Independent States (CIS) and 9% in Asia.

The slowdown of global steel demand in 2011 was driven by moderating industrial production, whereas construction sector growth remained weak. World industrial production grew by around 6% in the first three quarters of 2011, in year-on-year terms, following a moderating trend in growth since mid-2010. This slowing trend is occurring especially in advanced economies but also in emerging markets.

### **The outlook for steel market is marked by rising uncertainty**

Since May 2011, economic prospects for the developed world have deteriorated, especially because of the recent financial and fiscal problems in the euro area and the United States. These events could weaken the current slow recovery of the construction sector in developed countries. Indeed, they could lead to further weakening in business and consumer confidence, thus causing delays in investment decisions. Global steel

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<sup>1</sup> The meeting was attended by representatives from OECD countries as well as Argentina, Brazil, China, Egypt, India, Russia, , Romania, Chinese Taipei and Ukraine.

production has been on a downward trend since its peak in May 2011, when it reached 1560 mmt annualized.

Most projections for steel demand point to a slowdown in growth in 2011. According to the World Steel Association's Short-Range Outlook released in October 2011, world apparent finished steel use is expected to increase by 6.5% in 2011 and then by 5.4% in 2012, with demand in emerging economies increasing more than the world average. Despite uncertainties in the demand outlook for steel, steelmaking capacity continues to grow out of line with demand, raising concerns about supply and demand imbalances.

### **Availability of steelmaking raw materials**

Developments in steelmaking raw materials are receiving increasing attention by governments and industry alike. Strong demand for key steelmaking raw materials – notably iron ore, coal/coke and ferrous scrap – as well as national raw material strategies, trade policy and regulatory issues have raised concerns about the availability of supply to meet the demands of the global steel industry, as well as the impact of the resulting rising costs and price distortions on markets.

A workshop on steelmaking raw materials held as part of the Steel Committee meeting brought together raw material producers, the steel industry and government officials to discuss raw material market developments and challenges related to the availability of raw materials. Delegates were informed by industry associations that in spite of temporary scarcity of raw materials, there are sufficient worldwide reserves to satisfy future demand.

The workshop emphasised the growing role of China, India and other emerging economies in global demand for raw materials such as iron ore. Many projects are being developed around the world to meet this demand, though many new iron ore mining projects are often either in difficult environments, which require substantial infrastructure development, or correspond to low quality deposits.

Ferrous scrap reserves are mainly in developed economies. Steelmakers in emerging economies continue to be relatively more active in integrated steelmaking rather than electric arc furnace production. As a consequence, the demand for coking coal will continue to rise especially for higher quality hard coking coal. One of the challenges for steelmakers will be to optimise their mix of raw materials given their supply choices in terms of quality, geography and price.

On the policy side, export restraints applied to minerals and metal products have become more frequent, causing concern in countries that rely on imports of raw materials for their steel industries. The discussion in the workshop showed that nearly all countries are dependent on others for some raw materials, highlighting the mutual interest in policy approaches to support open markets for raw materials.

### **Steel and the role of carbon capture and storage to curb carbon emissions of the steel industry**

The steel industry is expected to play a significant role in mitigating climate change, but reducing emissions from steel production to levels consistent with a low-carbon economy in the coming decades cannot be accomplished with today's technology. Extraordinarily rapid development and deployment of carbon capture and storage (CCS) or other breakthrough steelmaking technologies may be necessary. At present, research, development and demonstration (RD&D) efforts that aim to reduce iron and steel industry CO<sub>2</sub> emissions are taking place in many parts of the world, but commercialisation of successful projects is expected to take 20 to 50 years in most cases. Moreover, demonstration and deployment of CCS in the steel industry is expected to be expensive at all levels and faces many challenges related to society's acceptance of the risks involved, and state support to adopt new technologies may raise issues of competitiveness.

## **The trade environment**

International trade in steel expanded during the first half of 2011, but at a significantly slower rate than in 2010. In the first half of 2011, China was the largest steel exporter, with growth of 3% year-on-year. Japan, the largest exporter in 2010, saw its steel shipments decline slightly. Regional steel trade balances have undergone considerable change during 2011; the deficit has widened for NAFTA, the EU balance has turned from surplus to deficit, while some Asian economies have experienced a significant increase in their steel trade balances. Trade measures continue to be applied in the steel sector, including technical barriers such as certification requirements. A number of new trade remedy investigations have been started, notably in Southeast Asia, though there has not been a significant increase from 2010, and there are still concerns about unfair trade.

For further information about the work of the OECD Steel Committee, journalists are invited to contact Anthony de Carvalho of the OECD's Science, Industry and Technology Directorate ([Anthony.decarvalho@oecd.org](mailto:Anthony.decarvalho@oecd.org)).