



STATE ENTERPRISES IN THE STEEL SECTOR

84th Session of the OECD Steel Committee
5 March, 2018

Gianpiero Mattera
Filipe Silva



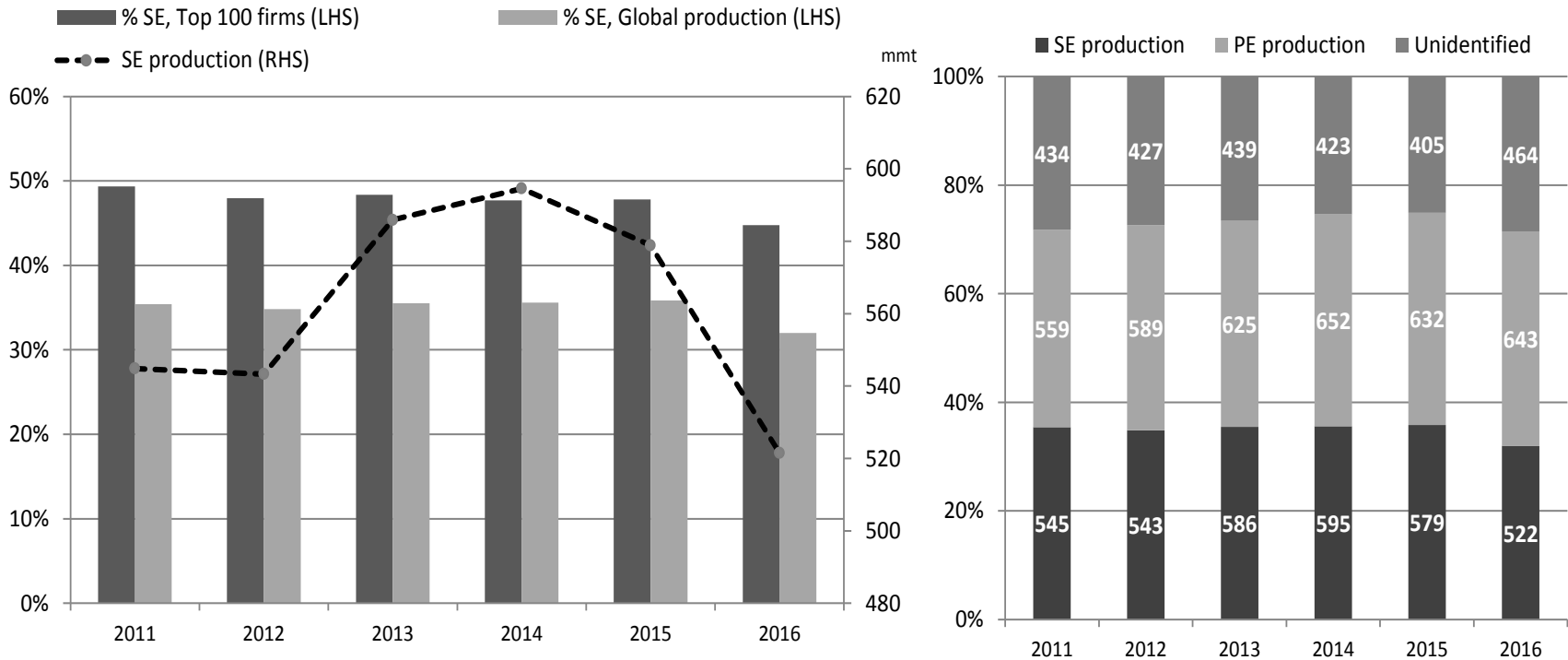
Background

- This presentation overviews the revised document on state enterprises in the steel industry, following discussions at September 2017 meeting.
- Increased presence of the state in the steel market and growing concerns regarding activity of state-enterprises (SEs).
- Important to determine whether SEs enjoy preferential market conditions and how these might affect market functioning.
- Serious concerns about the behavior of SEs in the steel sector.



State presence in the steel sector

SEs shares of crude steel production





State enterprise and economic performance

Loss persistence by ownership type

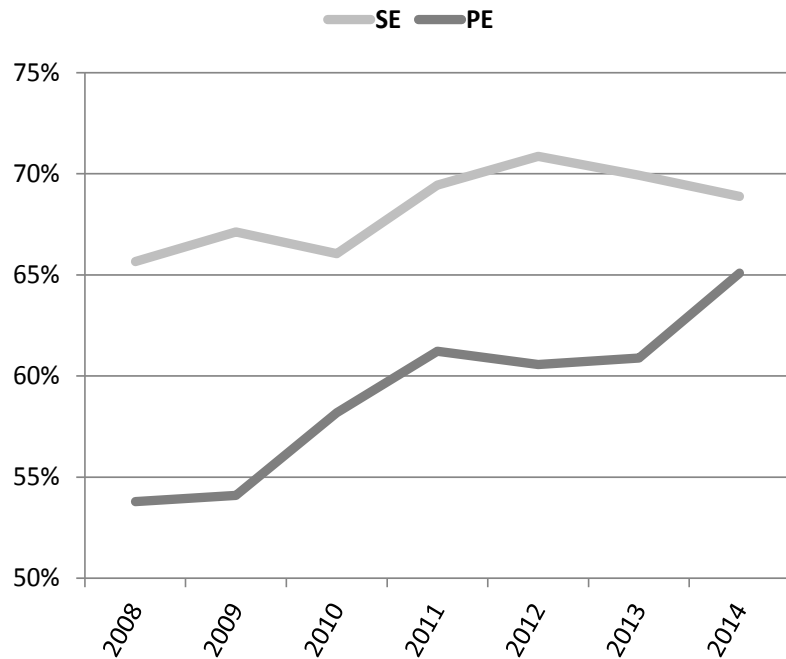
	1 year	2 years	3 years	4 years
PEs	8.5%	4.4%	2.2%	1.2%
SEs	16.8%	13.9%	8.8%	4.7%

- **Loss persistence** measures the number of years a firm recorded consecutive losses in the period of analysis.
- SEs appear to record **longer periods of negative profits** compared to their private counterparts.

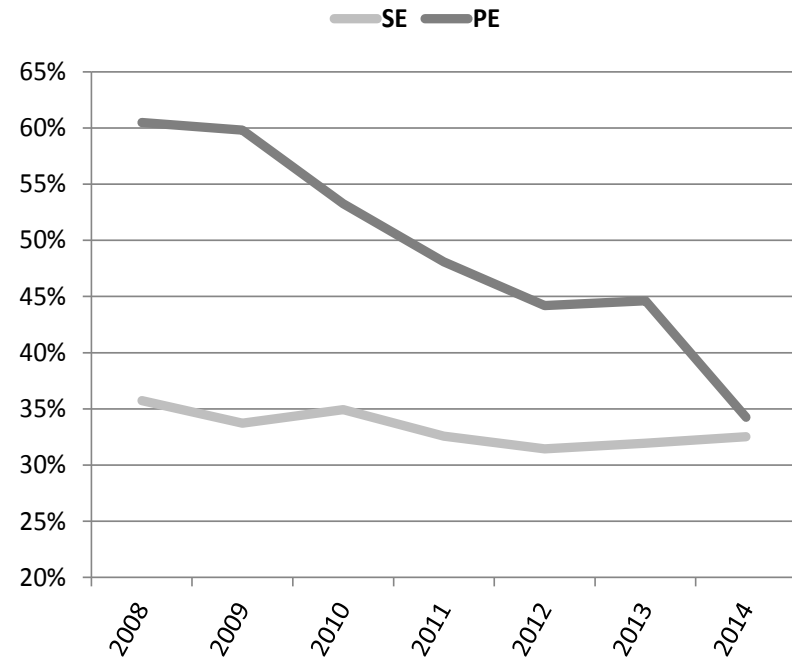


State enterprise and economic performance

A. Leverage (Debt/Assets)



B. Solvency Ratio





SEs and steelmaking capacity (new investments)

Recent investments in new capacity (by ownership type and status)		Operating/Underway			Planned		
		<i>SEs</i>	<i>PEs</i>	<i>unidentified</i>	<i>SEs</i>	<i>PEs</i>	<i>unidentified</i>
Capacity (mmt)	<i>OECD</i>	0	25.8	1.9	0	24.9	11.1
	<i>non-OECD</i>	152.7	120.3	46.2	97.4	133.2	22.1
No. investments	<i>OECD</i>	0	15	4	0	9	9
	<i>non-OECD</i>	70	89	52	41	50	34



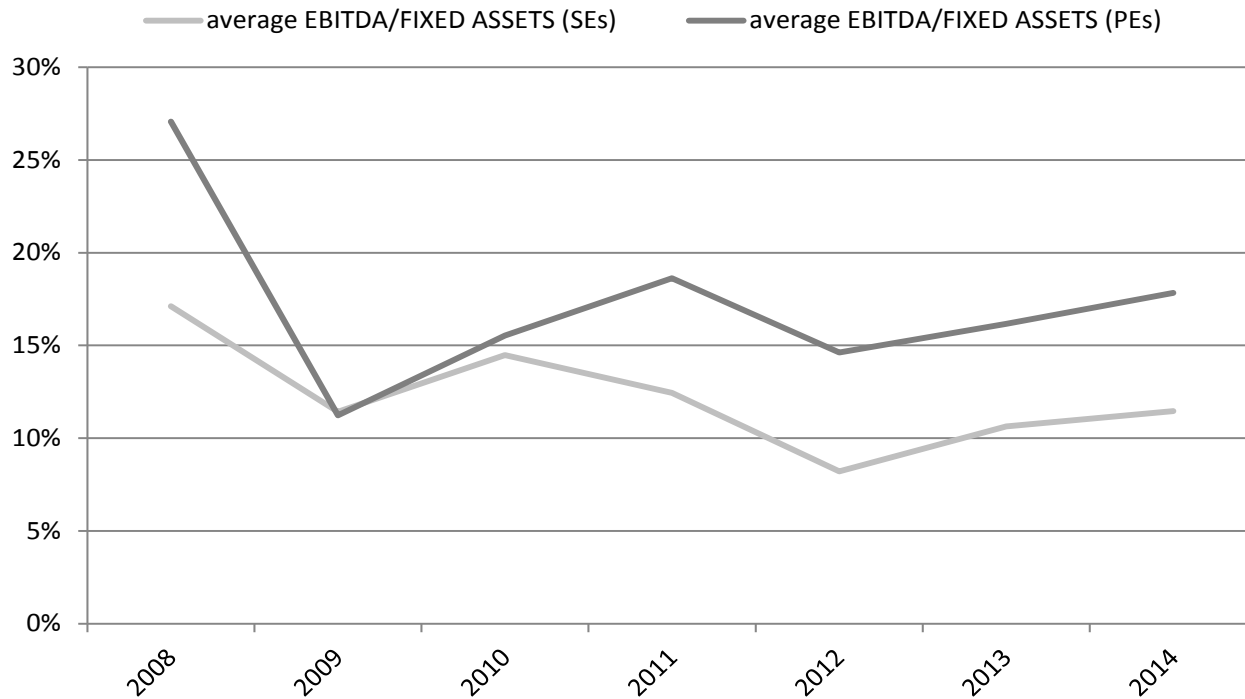
SEs and steelmaking capacity (closures)

Capacity closures by type of ownership	Number of closures		Capacity closed (mmt)	
	<i>SEs</i>	<i>PEs</i>	<i>SEs</i>	<i>PEs</i>
<i>OECD</i>	0	11	0	13.4
<i>non-OECD</i>	14	16	7.6	8.7



SEs and steelmaking capacity

Operating performance and capacity





The role of policy

- **Financing SEs:** Any forms of preferential *financing* towards SEs, direct or indirect, should be removed.
- **Capacity:** Prefer *market-based* solutions rather than administrative measures to reduce capacity through SEs.
- **International activity.** Minimise the effects that SEs may produce at cross-border level, while avoiding undue restrictions to the participation of multinational SEs to local markets.



Key findings (a recap)

- **Significant presence of SEs** in the global steelmaking industry.
- **SEs are associated with lower economic performance, longer periods of consecutive losses and higher debt.**
- **SEs retrieve lower profits for each unit of capacity** than their comparable private counterparts.
- **SEs are investing more in capacity than PEs**, while the number of SE closures in the last two years is significantly lower than for PEs.