



ITEM 10: BARRIERS TO EXIT IN THE STEEL SECTOR

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Contacts:

Timothy.DESTEFANO@oecd.org, +(33-1) 45 24 94 42

Valentina.BURRAI@oecd.org, +(33-1) 85 55 60 22

Anthony.DECARVALHO@oecd.org, +(33-1) 45 24 93 33



Background

- Addressing excess capacity in the steel sector is amongst the highest of policy priorities for the Steel Committee today
- A major source of excess capacity stems from the lack of market-driven exit of inefficient producers from the steel sector
- Subsidies and other support measures are often provided to unviable steel companies, thereby preventing their exit
- In addition, very high social and environmental exit costs hinder restructuring and closures, as well as labour-related costs
- Addressing exit barriers would support the viability of the steel industry and offset negative social impacts
- Objective of this paper is to examine the nature of barriers to exit and support future work on policy recommendations



Social and economic implications of exit

- Reallocation of resources lead to benefits that are diffused across the broader economy, but significant losses for steel workers and localities:
 - Steel facilities can employ thousands of workers (particularly large integrated mills)
 - Industry adjustments are concentrated in time and geography
- Large earnings losses due to firm- or industry-specific skills and long-term unemployment:
 - Lower rates of employment and lower wages following re-employment
- Health and other social consequences of exit are significant



Examples of barriers to exit

- Steel-specific capital
- The uncertainty around steel demand
- Labour-market rigidities
- Clean-up and environmental compliance costs
- Access to finance (limitations)
- Restrictions on FDI
- Trade restrictions
- Subsidies and other government support measures to unviable steel firms



Past policy approaches: some takeaways

- Postponing needed restructuring is potentially costly in the long run
- Measures to support producers facing difficulties should be temporary and not lead to expansion of capacity
- Government programmes to mitigate social costs should focus on support to workers and not subsidies to the companies
- Support to workers should not lock them in declining facilities
- Activation policies should be introduced early on



Next steps

- Introduce empirics into the analysis
- Explore the key characteristics of closures in the steel sector to support recommendations on policies that can facilitate adjustment, by looking into:
 - Data on closures of steel plants since 1985 combined with information on the characteristics of those plants and firms
 - Information on the different policy frameworks, relying on policy indicators produced by e.g. the OECD
- On that basis the report will inform the discussion about which policies can help facilitate adjustment in the steel sector, with an aim to develop policy recommendations in this area.