ITEM 10:
BARRIERS TO EXIT IN THE STEEL SECTOR

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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.