STEEL COMMITTEE

THE STEEL INDUSTRY IN TRANSITION: POLICY ISSUES AND
SCOPE FOR MULTILATERAL CO-OPERATION

1. The OECD Centre for Co-operation with the Economies in Transition and the OECD Steel Committee conducted a seminar on 2nd and 3rd November with the following countries: the Czech Republic, Hungary, Kazakhstan, Poland, Romania, the Slovak Republic, Slovenia and the Russian Federation. The purpose of the seminar was to continue the exchange of information on industry and policy developments initiated two years ago, and to discuss issues related to steel industry adjustment focusing particularly on labour adaptation and regional adaptation. In addition to government officials, industry and labour representatives from OECD and the non-Member countries participated.

2. Seminar participants agreed on the value of the meeting and the need for further and closer co-operation in the field of steel.
THE STEEL MARKET SITUATION IN OECD COUNTRIES

1. At its meeting in Paris on 3rd and 4th November, the OECD Steel Committee welcomed the Czech Republic and the Slovak Republic which have been granted observer status in the Committee. These two countries became the fourth and fifth economies in transition to be observers in the Steel Committee. Hungary, Poland and Romania were granted observer status one year ago.

2. The economic situation in the OECD area is improving faster than expected at the beginning of the year. For the area as a whole the growth rate of GDP will be over 2.5 per cent for the year and the forecast for 1995 has been revised upward, to close to 3 per cent. Steel demand in 1994 is expected to increase by some 3.9 per cent compared to 1993 -- part of the increase may be due to the rebuilding of steel stocks -- and a similar increase is also expected for 1995.

3. Concerning the main steel market developments in individual countries, in the United States, economic growth remained fairly robust in the first half of 1994 mainly due to a 9 per cent growth in investment, and there are signs of continuing strength in the economy during the second half of the year. Industrial production continues to be strong and most steel-consuming sectors, such as motor vehicles and industrial and electrical machinery are experiencing large increases in production. Activity in the steel-intensive highway and bridge construction sectors increased by 8 per cent through August and non-residential building by 3 per cent. The construction sector is recovering, although higher interest rates have cooled growth somewhat in recent months; however, housing starts for the first 8 months of 1994 were 16 per cent above the 1993 levels. Reflecting the dynamism of the economy, the steel market in the United States is growing sharply. During the first 7 months of 1994, apparent steel consumption increased by 16.7 per cent over the same period of 1993. With new orders still very strong, apparent consumption could increase by 12.7 per cent over the year. Shipments by U.S. steelmakers increased by 5.6 per cent and the high level of shipments should persist through the year. Crude steel production over the first 9 months of 1994 increased only by 2 per cent but, reflecting a 1 million tonnes decrease in capacity, operating rate jumped to 89.6 per cent.

4. The strengthening market has allowed steelmakers to boost prices. Since the beginning of 1993, steel prices have moved upward gradually and by August 1994, the composite steel price had risen by 9 per cent, slightly below the pre-recession peak in 1989. With rising prices and shipments, profitability was restored after three years of huge losses. Strong demand and higher prices have encouraged a surge in imports. During the first 7 months of 1994 there was a more than two-thirds increase in imports compared to the same period of 1993 and the increase in imports captured two-thirds of the increase in apparent consumption. Imports of semi-finished products for re-rolling increased even faster, by 122 per cent and accounted for 28 per cent of total
imports. Imports from the European Union and Japan increased by 95 and 86 per cent respectively, while those from Brazil and Mexico more than doubled. Russia and Ukraine have also become an important new source of steel, while imports from Canada, still the second largest source, declined by 7 per cent. Because of the surge in domestic demand and comparatively weak foreign markets, exports declined by 10.4 per cent compared to the same period of 1993, despite a 15.4 per cent increase in exports to Canada and a sixfold jump in trade with Thailand which became the third largest export market.

5. For 1995, despite a slowdown in GDP growth which may total 2.8 per cent, investment is expected to continue to stimulate growth. The strength of steel-intensive sectors is expected to continue and a small improvement is also foreseen in the construction sector. These factors should continue to keep steel demand high for the year. Steel imports are expected to remain at current high levels.

6. In Canada, growth in real GDP continued to be strong during the first half of the year and the increase over the year is expected to be close to 4 per cent. Inflation remained very low and unemployment continued to show a downward trend. For the first 7 months of 1994, total steel shipments increased only by 0.3 per cent, while domestic shipments increased by 10.5 per cent as strong domestic demand led to reduced exports to all countries. Steel shipments to service centres (up 18 per cent), the motor vehicle industry (up 16 per cent) and steel fabricators (up 11 per cent) have improved significantly, while in other sectors such as construction the activity improved more modestly. Shipments of steel for pipes and tubes went down by 8.2 per cent due to a major reduction in large diameter pipe sales. Strong demand for most steel products have permitted the industry to implement price increases and the higher revenues, together with improved operating rates, enabled Canadian steelmakers to return to profitability. The steel market is expected to remain strong for the rest of 1994 and into 1995. Steel demand for 1995 may be at least as strong as in 1994 or even higher. If the steel market is stronger in 1995, it will be due to continued growth in motor vehicle production and sales in North America. However, improved residential and non-residential construction and growth in the manufactured goods sector would also increase demand for steel products.

7. During the first six months of 1994, apparent consumption of steel products in Mexico increased by 0.9 per cent compared to the first half of 1993. Consumption of long products increased by 10.6 per cent while consumption of tubes and pipes dropped by 27.8 per cent. As a result of the modernisation of the facilities made by the steel companies, steel production recovered from the previous year, recording an increase of 8.9 per cent. This recovery led to a decline of 28 per cent in net imports of steel. The utilisation rate of the 11.5 million tonnes per year installed capacity reached 85.4 per cent, significantly above the level reached at the end of 1993 (79.9 per cent). For 1995, crude steel production is expected to grow to 10.6 million tonnes, and steel imports may continue to decline to 1.2 million tonnes.
8. The short term economic outlook for the European Union is now much more favourable than at the beginning of the year. The recovery in the economy that began in the spring is now confirmed and the main economic indicators suggest that the recovery will be strengthening through the end of the year with an increase in GDP of 2 per cent, or even more, over the year 1994. Steel demand increased significantly during the first half of 1994 and the current trend should continue and strengthen during the second half of the year; an overall increase in steel demand by more than 5 per cent is expected for the year. The automotive sector was the most dynamic steel using sector while construction sectors did not pick-up yet. Considering their exceptionally high level reached in 1993, steel exports in 1994 will be slightly lower. Exports to China and South-East Asia are declining while those to the United States and some other traditional markets remain sustained; total exports from the EU should be over 30 million tonnes. Steel imports are increasing and could come close to the 1992 level.

9. During the first eight months of 1994, steel production in the EU increased by 2.5 per cent compared to the same period of 1993 and total production for the year is expected to be close to or slightly above 135 million tonnes. Price increases, which started in 1993, have occurred for flat products (+15 to 20 per cent), while prices for long products remain depressed. For 1995, with a forecast increase in GDP of about 3 per cent for the EU and with a world steel market that may develop along the current trend, domestic steel demand in the EU is expected to increase and steel prices are expected to be firm. Positive economic developments in the economies in transition would strengthen conditions further.

10. After a severe decline in 1993, steel consumption in Austria increased by 18 per cent during the first half of 1994, rising to 1.5 million tonnes. Demand for flat products increased by 20 per cent and for long products by 12 per cent. Increased shipments to the EU and the CEECs led to a 14.5 per cent increase in Austria's steel exports during the first half of 1994, while steel imports jumped by 22.2 per cent, mainly due to the relining of blast furnace A in Linz, which limited the increase in steel production. Nevertheless it is expected that steel production over the year will be somewhat higher than in 1993 and may reach 4.3 million tonnes. Further growth in steel demand is anticipated in 1995.

11. The Finnish economy is recovering and in 1994, GDP is expected to grow by 4 per cent and manufacturing production by almost 10 per cent. Investments in machinery and equipment are forecast to increase by 10 to 15 per cent. Steel demand during the first half of 1994 picked up by 12 per cent from the very depressed level of 1993, helped by the recovery in the shipbuilding, machinery and manufactured metal goods industries. Imports of steel increased by 14 per cent during the first half of this year and accounted for 44 per cent of the domestic market. Over the same period steel exports increased by 7.6 per cent. Crude steel production rose by 6 per cent and that of rolled products by 8 per cent. The outlook for 1995 is favourable with GDP forecast to expand by 6 per cent and investment by 10 to 15 per cent. This may lead to a further 9 per cent increase in steel demand, particularly if the very depressed construction sector starts to recover.
12. In Norway, after a 4 per cent increase in apparent steel consumption in 1993, steel demand during the first half of 1994 continued to grow by 10.4 per cent, compared to the same period of 1993. Activity is expected to grow in the construction and shipbuilding industries. After rising in 1993, steel exports declined by 5.6 per cent during the first half of 1994, while imports continued to rise, increasing by 10 per cent from the previous year.

13. After three years of declines, the Swedish economy has now started to recover. GNP is expected to grow by some 2 per cent in 1994 and by 2.5 to 3 per cent in 1995. However, most of this growth is export-led and in domestic-oriented industries demand has developed very weakly. Industrial production has increased since the beginning of 1993, and the metal goods, machinery and transport equipment industries have increased their production by 25 to 40 per cent. Due to important productivity gains in the industry, the prospects for the next few years are very positive. The steel market is expected to increase by 12 to 14 per cent in 1994 and a further 6 to 8 per cent increase may take place in 1995. During the first seven months of 1994, steel imports increased by 16 per cent, and exports of finished steel, excluding semis, have increased by 13 per cent, while over the same period exports of semis decreased considerably by 60 per cent. The Swedish production of crude steel increased by slightly less than 9 per cent during the first three quarters of 1994 and the increase was entirely due to alloyed steel, including stainless steel, which now represents 42 per cent of total steel production.

14. In Switzerland, the economy started recovering after three years of stagnation. In 1994, investment in capital goods increased by 10 per cent, while that in construction remained weak. Industrial production increased also by 10 per cent during the second quarter of this year. Over the first nine months of 1994, apparent steel consumption slightly increased by 5 per cent, compared to the same period in 1993, and reached 1.4 million tonnes. Steel imports increased by 6 per cent and steel exports declined by 14.3 per cent resulting in an increase by 36 per cent in net imports. Crude steel production decreased by 14.3 per cent and totalled 0.82 million tonnes during the first nine months of 1994. Steel companies still have difficulties to cover their production costs and are reporting losses. The outlook for the Swiss steel market remains weak as activity in the machinery sector is slowing down and that in the construction sector did not improve yet.

15. In Japan, crude steel production in the first half of 1994 dropped by 8.2 per cent from the same period of 1993. The decline was due to falling exports to China on top of the continued decline in domestic demand. However, in the second half of this year, production is expected to increase by 4.3 per cent from a year earlier, and as a result, steel production for 1994 as a whole will total about 97.5 million tonnes, down 2.1 per cent from 1993. Domestic steel demand which continued to declined over the first half of 1994 is expected to start recovering, partly because public civil engineering and private housing are firm and in part because some signs of recovery have appeared in demand from certain manufacturing sectors. In the first eight months of 1994, shipments to China, the largest export market for Japanese steel, dropped by 37.1 per cent, while exports to South-East Asia rose by 23.5 per cent and exports to the United States increased by 107.9 per cent due
in large part to shipments of semi-finished products. Total steel exports went up 4.7 per cent compared to the first eight months of 1993. However, the yen’s appreciation is expected to affect steel exports adversely; they are likely to decline during the last months of 1994 and for the year as a whole steel exports are expected to match or fall just below the 1993 level. Steel imports during the first eight months of 1994 fell by 14.1 per cent, reflecting weak demand in Japan and the diminishing spare export capacities in nearby countries such as Korea and Taiwan.

16. Steel consumption in Australia is expected to increase for the third consecutive year and should rise to over 5 million tonnes of finished products, helped by growing exports of steel intensive products and a pick up in business investment. Steel exports in 1994 are reaching the high levels recorded in 1992 while steel imports are expected to remain at the levels prevailing over the past decade. Steel production for the year is expected to be over 8 million tonnes as Australian steelmakers are producing at near-full capacity. The Australian economy is expected to continue to grow in 1995, leading to continued growth in steel consumption. Steel production is also expected to increase as steel trade will probably remain at current levels.

17. During the first half of 1994, the Korean economy enjoyed an 8.5 per cent growth and for the year 1994 as a whole the economy is expected to grow by 8 per cent. This is the result of an increase in investment, large increases in production in the manufacturing sector and increasingly favourable foreign market conditions. Domestic steel consumption continues to increase in 1994 and is expected to reach 31.2 million tonnes, up 16.8 per cent from 1993 levels. In 1994 steel exports are expected to decline by 7.4 per cent as a result of reduced exports to China and increasing domestic demand. During the first eight months of 1994, steel imports reached 6.1 million tonnes, up 82.9 per cent from the levels of 1993. Crude steel production is expected to reach 34 million tonnes, a 2.9 per cent increase from 1993 levels, and steelmaking capacities will be fully utilised. Domestic demand for steel is expected to continue to increase in 1995, in line with the continuous expansion of activity in the steel-consuming sectors, particularly the automobiles and shipbuilding industries. As mini-mills expand their production facilities, steel production is expected to increase by 10 per cent. Steel exports are expected to increase only slightly in 1995, while steel imports are expected to decline.

18. After significant declines in domestic demand and in demand from other eastern markets during the last five years, conditions have now stabilised in the Czech Republic, due to growing stability on the domestic market and increased exports. During the first half of 1994, crude steel production was slightly over 3.5 million tonnes. Over 1994, steel imports are expected to remain close to the 1993 level while steel exports are expected to increase.

19. In Hungary, in 1994 GDP will not continue to decrease and industrial production will show a modest recovery of about 4 per cent. Over the year, Hungarian steel production will likely reach 1.9 million tonnes, an increase of 9.4 per cent over 1993 levels. This increase will reflect a modest growth by 3 to 4 per cent in domestic steel demand and a 10 per cent increase in steel
exports. Steel imports will probably be slightly lower than in 1993. For 1995, the prospects for the Hungarian economy remain weak and steel consumption will probably remain close to the 1994 level.

20. In Poland, the positive development of the economy accelerated during the first eight months of 1994, and industrial production grew by 12.4 per cent. The growth in the economy is expected to improve the steel market. Over the first six months of 1994 crude steel production increased by 9 per cent compared to the same period of 1993. Steel imports, mainly flat products, represented 80 per cent of total imports in the year 1993, and steel exports also increased; a high share of exports were in semi-finished products.

21. During the first half of 1994, crude steel production in Romania, increased by 10 per cent compared to the same period of 1993, while a more modest increase occurred in steel consumption. Following a 30 per cent increase in 1993, steel exports during the first half of 1994 were similar to the level reached during the second half of 1993. Imports have accounted for 12 to 14 per cent of apparent consumption and represent mainly imports of semis from Russia and Ukraine and now imports of special steels from Western Europe.

22. Steel consumption in the Slovak Republic declined by 50 per cent between 1989 and 1993. Production of finished products, however, has been more or less maintained though increased exports. Between 1992 and 1993, the pattern of exports shifted significantly, with increased exports to South-East Asia and Central and Eastern Europe, while exports to the Middle East and Western Europe declined. During the first nine months of 1994, crude steel production declined slightly, by 2 per cent to 2.9 million tonnes.

23. Improved conditions in steel have not, however, halted the decline in industry employment trends. In the USA, employment has stabilised in the most recent months, although it remains below the annual average for 1993. In August, total employment stood at 233,000 down 2.1 per cent from a year earlier. The decline occurred exclusively among production workers and in fact the number of non-production workers actually rose. In Canada, employment in the steel industry continues to decline and should total about 32,000 persons for 1994, down from 33,360 people in 1993. In Mexico, the steel workforce remained at its 1993 level of 41,300 workers. In the EU, employment in the steel industry continued to show a declining trend and, in 1994, will be reduced by 10 per cent. However, in 1995 the percentage decline may be lower if the steel market remains strong. In Austria, employment declined by 1.9 per cent over the first half of 1994, to 15,400 workers. In Norway, where the employment in the steel industry is approximately 1,200 persons, a small decrease is expected in 1995. As a result of restructuring efforts and weak market, employment in the Swiss steel industry dropped by 18 per cent over the first nine months of 1994 to 1,582 employees. To cope with the severe business environment, the Japanese integrated steelmakers introduced rigorous rationalisation programs in March 1994. The number of employees in the steel operations of the Japanese steel industry has been decreasing month after month from 182,000 in January 1994 to 179,000 at the end of August (-1.6 per cent).
24. In the economies in transition, the restructuring of the steel industry has led to dramatic reductions in the workforce in recent years. In the Czech Republic, the number of employees fell from 118 000 in 1990 to 72 000 in 1993. In Hungary, employment in the steel industry declined from 18 500 in 1993 to 17 560 in 1994. Employment in the Polish steel industry has been decreasing since 1991 at a rate of 11 per cent per year and in June 1994 amounted to 97 000 people. Employment in the Slovak steel industry has declined during the past four years, falling by 13 per cent, from 16 580 workers in 1989 to 14 476 workers in 1993.