OECD Steel Committee

Presentation for the Council Working Party on Shipbuilding
9 July 2009
Crude steel production worldwide

Source: WSA

- **Growth Period 1950-1973**: CAGR 5.8%
- **Stagnant Years 1974-2001**: CAGR 0.7%
- **Steel Boom 2002-2007**: CAGR 8.4%
Main policy responses in the 1970s

• **Europe:** massive financial intervention at all levels of government to:
  – Complete investments in new capacities decided upon before the slump
  – Maintain existing capacities regardless of profitability and despite of indications of further declines in demand;
  – Support the labour force in order to avoid social upheavals due to massive lay-offs

• **United States:** trade policy measures to shield domestic producers:
  – Export restraint agreements with the EC and Japan
  – Trigger Price Mechanism
  – Increased use of trade remedy legislation
Outcome

- The much needed capacity cut backs in form of plant closures made little progress

- The situation did not improve but worsened:
  - Imbalance between supply and demand increased
  - Price levels and profitability deteriorated
  - Competition among some countries distorted due to subsidy competition
  - Trade frictions
Steel Committee established in 1978

• “To ensure that trade in steel will remain as unrestricted and free of distortion as possible”
• “Encourage the reduction of barriers to trade”
• “Facilitate needed structural adaptations that will diminish pressures for trade actions and promote rational allocation of productive resources”
• “Avoid encouraging economically unjustified investments”
• “Ensure that measures affecting the steel industry are consistent with general economic policies”
• “Facilitate multilateral cooperation consistent with the need to maintain competition and prevent problems”
The current crisis & steel market

• The global economic crisis has pushed the world steel industry into recession
  – Demand for steel has contracted sharply
  – Steelmakers have introduced major production cuts
  – Trade in steel has declined sharply
  – Steel prices and employment are also down substantially

• Steelmaking capacity continues to increase despite the market downturn
Steel use by sector

% of steel use - 2007

Source: worldsteel, 2008 Sustainability Report
Steel-using sectors plunge

- Slowdown was occurring already before the financial shock
- The financial shock reduced capital availability
- Causing a contraction in fixed asset investment

Output growth

- Construction
- Mechanical engineering
- Automotive
- Consumer durables
- Metal Goods
Global and regional apparent steel demand

- Global steel demand upturn ends in the first half of 2008
- Demand particularly weak in North America, Europe and Japan
- More stability in some emerging economies
Apparent steel consumption in China and the United States

**China**

- January 2007: 30 Mmt
- March 2007: 35 Mmt
- May 2007: 40 Mmt
- July 2007: 45 Mmt
- November 2007: 50 Mmt
- January 2008: 55 Mmt
- March 2008: 60 Mmt
- May 2008: 65 Mmt
- July 2008: 70 Mmt
- September 2008: 75 Mmt
- November 2008: 80 Mmt
- January 2009: 85 Mmt
- March 2009: 90 Mmt

**United States**

- January 2007: 30 Mmt
- March 2007: 35 Mmt
- May 2007: 40 Mmt
- July 2007: 45 Mmt
- September 2007: 50 Mmt
- November 2007: 55 Mmt
- January 2008: 60 Mmt
- March 2008: 65 Mmt
- May 2008: 70 Mmt
- July 2008: 75 Mmt
- September 2008: 80 Mmt
- November 2008: 85 Mmt
- January 2009: 90 Mmt
- March 2009: 95 Mmt
Steel mills have reduced output strongly
Capacity utilization (1Q 2009): 43% (US), 49% (EU), 55% (Japan)
Output rises again in some emerging countries
Capacity utilization rate in world steel industry

Source: worldsteel
Steel trade in selected economies (thousand tons)

- Steel trade has plummeted since September 2008
- In 4Q 2008, the volume of world trade in steel (average of exports and imports) declined by 30% (QoQ) / 20% (YoY)
- Trade imbalances have narrowed
Recent policy developments

• Increase in trade measures to support the industry since last September
  – Tariff increases (mostly in emerging economies)
  – Non-tariff barriers (new licensing and technical requirements, mandatory and quality standards, etc.) in emerging Asia
  – Export-facilitating measures
  – Trade remedy measures
Monthly data mostly ending between December 2008 and April 2009; three-month average over the last year three-month average, seasonally adjusted.
(Source: OECD, Main Economic Indicators database.)
Government infrastructure spending

- The governments of most economies are spending on infrastructure as part of stimulus measures
- Emerging and developing economies spending USD 566 billion on infrastructure
- Advanced countries spending USD 378 billion

Steel use in the global construction sector (million tons)
Indirect impacts of government infrastructure spending on steel consumption

- Highly uncertain calculations
- The potential indirect impact of public infrastructure spending could be on the order of 130 million metric tons over the next two or more years, the lion’s share of which would occur in China

<table>
<thead>
<tr>
<th></th>
<th>steel use linked to investment</th>
<th>Tons of steel used per USD 1 bn of investment (PPP)</th>
<th>Total spending on infrastructure</th>
<th>Potential impact on steel consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced countries</td>
<td>348 mmt</td>
<td>44,251</td>
<td>USD 378.1 billion</td>
<td>16.7 mmt</td>
</tr>
<tr>
<td>Emerging and developing economies</td>
<td>691 mmt</td>
<td>80,557</td>
<td>USD 565.8 billion</td>
<td>112.8 mmt</td>
</tr>
<tr>
<td>- of which China</td>
<td>326 mmt</td>
<td>123,186</td>
<td>USD 464.5 billion</td>
<td>100.9 mmt</td>
</tr>
<tr>
<td>- other developing and emerging</td>
<td>365 mmt</td>
<td>58,061</td>
<td>USD 101.3 billion</td>
<td>11.9 mmt</td>
</tr>
<tr>
<td>World</td>
<td>1039 mmt</td>
<td>66,867</td>
<td>USD 943.9 billion</td>
<td>129.5 mmt</td>
</tr>
</tbody>
</table>
Production and demand for passenger cars

- The current global recession has had an unexpectedly large impact on the global car market, which consumes about 13% of the world's finished steel.
- New registrations and sales showing some signs of recovery.
In OECD countries in first few months of 2009, output fell by:

- 20-25% in Germany and other European countries
- 30-40% in Japan
- 13-20% in the United States

In emerging economies, the growth rate slowed sharply in the beginning of 2009 in some countries.

As a whole, the mechanical engineering sector output to fall in 2009, followed by slow recovery in 2010, as a result of weak business investment in capital equipment.
Overall steel outlook
(Outcome of deliberations of 66\textsuperscript{th} Steel session)

– Consumption of steel to fall by 15\% in 2009 (WSA)
– A moderate recovery later this year is possible owing to infrastructure programmes especially in emerging economies
– Consumption to reach 2007 levels only by 2012
– Uncertainties:
  • Will demand continue when the stimulus ends?
  • Risk of oversupply?
  • Trade frictions?
  • A need to restructure?
Will demand continue when the stimulus ends? Structural change in steel-using industries

- Economic growth in China shifting towards household spending and away from investment and exports
- Rise in global steel intensity expected to slow significantly
Risk of oversupply?
World steelmaking capacity, crude steel production and finished steel consumption

- With steelmaking capacity having outstripped the growth of steel consumption in recent years, and as steel demand is now contracting due to the global economic downturn, it appears that the global steel industry is facing a situation of overcapacity.
Growth in world capacity of steel production
Employment and productivity in the steel industry

- **Employment**
  - Japan
  - Germany
  - France

- **Tonnes of crude steel produced per worker**
  - United States
  - Korea
  - Chinese Taipei

Graphs showing changes in employment and productivity from 1990 to 2005 for various countries.
Employment declines have accelerated

- North America is experiencing relatively pronounced effects in steel industry employment
- In Europe, employment has declined more gradually, supported by short-time working
- Turkey: employment relatively stable at end of 2008, but expected to fall by 10% by June 2009.
- In China, employment has fallen by 80,000 to 3.5 million
- Further layoff announcements recently:
  - Corus: 2000 jobs to be cut
  - ThyssenKrupp: 4,000 jobs to be cut
  - Usiminas: 1,326 jobs to be cut
After reaching a historical high in July 2008, the average global price of steel has declined each month since then, and in May 2009 reached a level that is 55% lower than last July’s peak.
The model disaggregates world steel supply and demand into ten trading regions: ASEAN, the EU, China, the CIS, India, Japan, Korea, NAFTA, the Middle East, and South America.

Demand for steel is a function of the real price of steel, economic activity and time.

Supply of steel is function of the real price of steel, capacity, prices of raw materials.

Supply and demand relationships across regions are linked through a market clearing price of steel (determined by setting world supply=demand).
Current activities of the Steel Committee

- Market trends and scenarios
- Steelmaking raw materials
- Steelmaking capacity
- Subsidies and support measures
- Effects of trade remedy measures on the steel market
## Tariff increases

- **Mainly emerging economies**

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>Feb. 2009</td>
<td>Import tax of 10% with a minimum value, on top of already applicable 5% import duty. (CR sheets, galvanized sheets and organic coated sheets)</td>
</tr>
<tr>
<td>India</td>
<td>Nov. 2008</td>
<td>Increase in import duties on a range of iron and steel products from 0 percent to 5%.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Feb. 2009</td>
<td>Increase of import tariffs on some steel products.</td>
</tr>
<tr>
<td>Russia</td>
<td>Feb. 2009</td>
<td>Increase of import tariffs on certain steel and steel products (effective from 14 January 2009, for next nine months).</td>
</tr>
<tr>
<td>Turkey</td>
<td>Jan. 2009</td>
<td>Import tariff increase on a number of products such as: hot rolled flat products; cold rolled flat products; coated flat products.</td>
</tr>
<tr>
<td>UAE</td>
<td>Feb. 2009</td>
<td>The government has reinstated a 5% customs duty on rebar effective from 15 February 2009.</td>
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## Non-tariff measures

### – Mainly developing Asian economies

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<th>Country</th>
<th>Date</th>
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<tr>
<td>Argentina</td>
<td>Nov. 2008</td>
<td>Introduction of non-automatic import licensing requirements (affecting only a very narrow product group of steel)</td>
</tr>
<tr>
<td>India</td>
<td>Nov. 2008</td>
<td>Introduction of licensing requirements for imports of certain steel products.</td>
</tr>
<tr>
<td>India</td>
<td>Feb. 2009</td>
<td>New mandatory product quality certification from the Bureau of Indian Standards for 17 steel imported products. The Government deferred implementation of this regulation by one year on 10 February 2009</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Jan. 2009</td>
<td>Introduction of mandatory standards for steel products (hot-rolled steel sheets and coils and zinc-aluminium alloy coated steel sheets and coils)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Nov. 2008</td>
<td>New technical regulations for 57 steel products, requiring certificates of approval for conformity with Malaysian Standards.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Mar. 2009</td>
<td>Introduction of new requirements for Approval under domestic Product Quality Standards</td>
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Export-facilitating measures


– After the global economic crisis, various export-facilitating measures were introduced.

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<th>Description</th>
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<tr>
<td>China</td>
<td>Dec. 2008</td>
<td>Elimination of export duties on certain flat steel products (5%) combined with cancellation of steel export licensing requirements.</td>
</tr>
<tr>
<td>China</td>
<td>Apr. 2009</td>
<td>Imposition of VAT export rebate on certain flat and long steel products (13%)</td>
</tr>
<tr>
<td>China</td>
<td>Jun. 2009</td>
<td>Imposition of VAT export rebate on HR coil (9%)</td>
</tr>
<tr>
<td>India</td>
<td>Nov. 2008</td>
<td>Elimination of export duties on steel products (which were imposed in May 2008)</td>
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## Trade remedy measures

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<th>Description</th>
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<tr>
<td>Australia</td>
<td>Dec. 2008</td>
<td>Initiation of AD and CVD duties investigations on imports of hollow sections from China and Malaysia</td>
</tr>
<tr>
<td>China</td>
<td>Jun. 2009</td>
<td>Initiation of AD duties investigations on imports of plates from GO silicon steel from Russia and US. (and CVD investigations against US)</td>
</tr>
<tr>
<td>EU</td>
<td>Nov. 2008</td>
<td>Initiation of AD duties investigations on imports of hollow sections from Turkey, Ukraine, Belarus</td>
</tr>
<tr>
<td>India</td>
<td>Apr. 2009</td>
<td>Provisional AD duties on imports of stainless CR flat products from 8 economies</td>
</tr>
<tr>
<td>India</td>
<td>Nov. 2008</td>
<td>Initiation of AD duties investigations on imports of HR flat products from 15 economies</td>
</tr>
<tr>
<td>India</td>
<td>Apr. 2009</td>
<td>Initiation of safeguard investigation on HR flat products.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Nov. 2008</td>
<td>Initiation of AD duties investigations on imports of plates from China, Chinese Taipei and Malaysia</td>
</tr>
<tr>
<td>Russia</td>
<td>Mar. 2009</td>
<td>Initiation of AD duties investigations on imports of stainless flat products from 5 economies</td>
</tr>
<tr>
<td>US</td>
<td>Apr. 2009</td>
<td>Initiation of AD and CVD duties investigations on Chinese OCTG.</td>
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