STEELMAKING CAPACITY

DSTI/SU/SC(2013)10
74rd Steel Committee Meeting
Paris, 1-2 July 2013

OECD
BETTER POLICIES FOR BETTER LIVES

Background

- Proposal in December 2012 for further work on excess capacity:
  - Examine the issue at the product-specific level
  - Share experiences about how the industry has restructured in the past
- Difficulties with assessing excess capacity at the product level:
  - Very little official information on capacity at the product level
  - The publically available sources not necessarily fully reliable (exclusion of smaller firms and inconsistent with each other)
  - Methodological problems (overlapping/duplication issue when steel is further processed into products)
- More fruitful to assess excess capacity at the crude level

The issue should remain high on the agenda

- Excess capacity is currently one of the main problems facing the steel industry
- The problem has worsened since the economic and financial crisis
- Excess capacity will likely remain a problem in the medium to longer-term unless it is addressed in a comprehensive way
- Significant impacts on the viability of the steel industry

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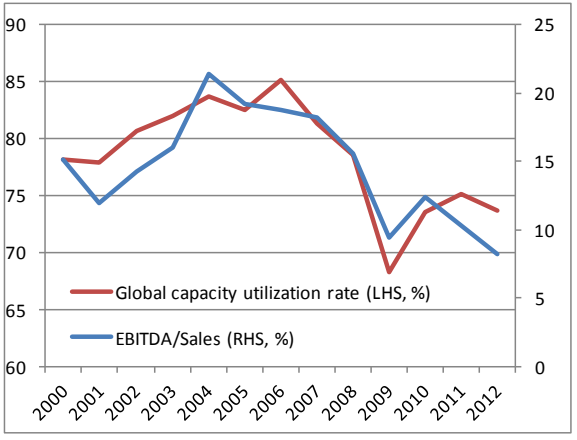
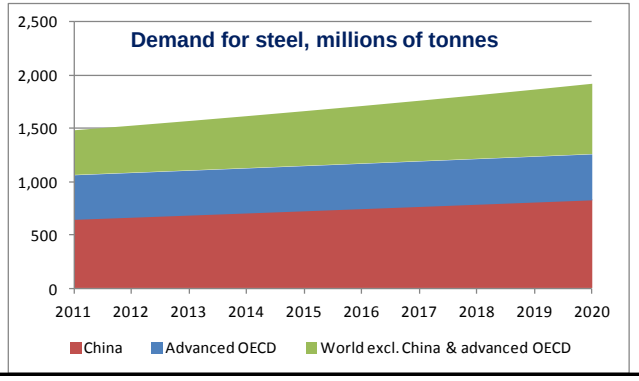
Excess capacity and industry's profitability at the global level



Source: OECD, Factset

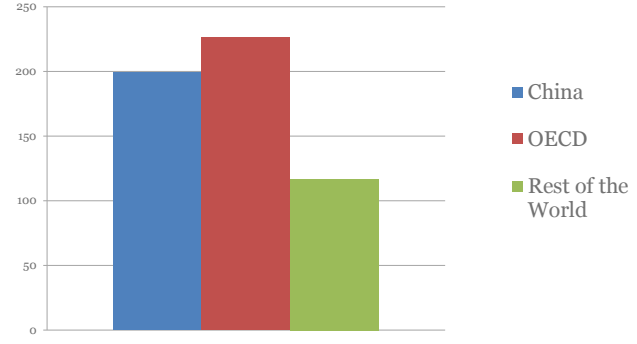
Excess capacity is a long-term problem

- The current level of capacity is probably sufficient to meet society's needs for steel in 2020, under various assumptions for intensity of use per person across regions.



Excess capacity is a problem facing many economies

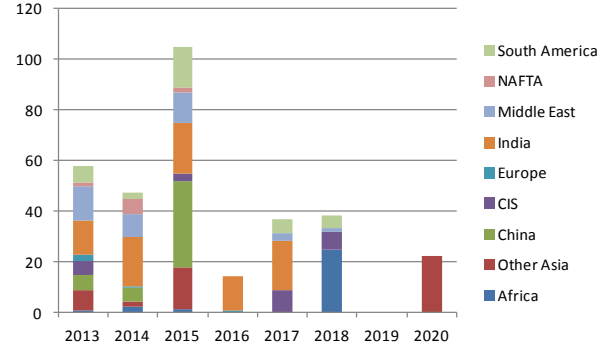
Global level amounted to 542 mmt in 2012



Source: OECD

However, investment is still increasing rapidly

New additions of capacity announced by steelmakers, mmt



Source: Metal Bulletin Research

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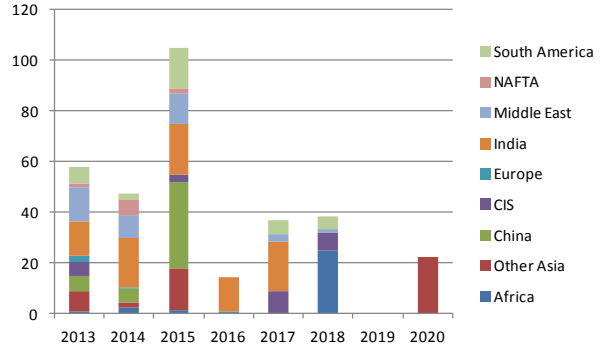

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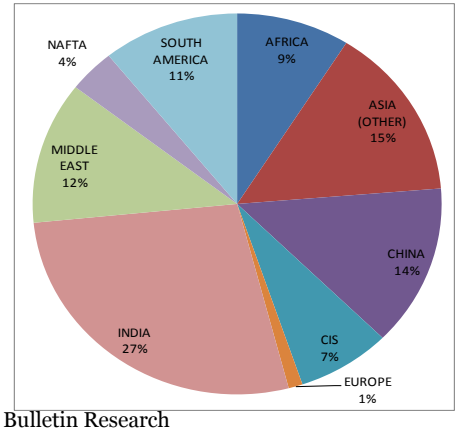
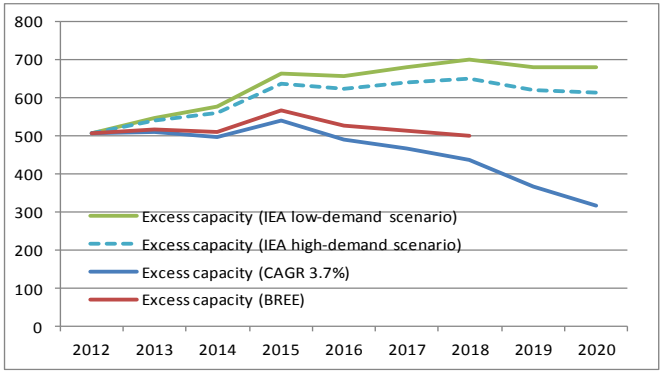
Share of the new additions in capacity, %



Source: Metal Bulletin Research

Will take very long for the market to expand its way out of excess capacity

Global excess capacity scenarios (mmt)



Sources:IEA, MBR, BREE, Oxford Economics, OECD.

What should be done?

- Little need for new investment
  - How to ensure that new additions of capacity will be economically sustainable in the long run?
  - Will there be markets for the steel produced?
  - Capacity expansion based on subsidies and government support may not be sustainable in the long run
- All regions need to address the problem – without contributions from all, there are risks that outcomes will be less open markets, more protectionism, less dynamic industry;
- What kind of incentives are available for encouraging the closure of economically unsustainable steel plants or discouraging new investment?

Capacity by product

-Two data sources of capacity at the product level-

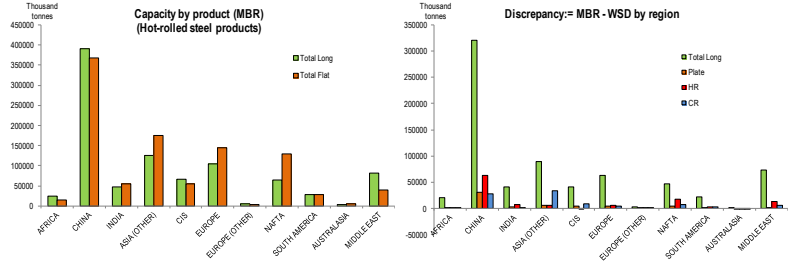
WSD PLANTFACTS	MBR Steelmaking Capacity and Capital Expenditure Database
Characteristics • Capacity by company and facility (over 12,500 facilities). • Technical information for a given plant. • Updated continuously. • Represents the current capacity situation as well as future projects.	**Characteristics** • Capacity by company and product. • Broader and more comprehensive data. • Covers capacity for raw materials. • Updated every quarter. • Represents the current capacity situation as well as future projects.
Plant details •Long products(e.g., Wire Rod Mills, Medium section Mills and Heavy Section Mills). •Flat products (e.g., Plate Mills, Hot Strip Mills, Reverse/Tandem cold Rolling Mills and Hot Dip Coating Lines).	**Product details** •Long products (Rebar, Wire rod, Merchant bar and HR sections). •Flat products (e.g., Hot-rolled plate, Hot-rolled coil, Cold-rolled coil and Hot-dipped galvanized). •Pipe and tube products.
Special notes •Does not always capture small and medium sized enterprises. •Under-estimates capacity for some economies.	**Special notes** •Much closer to the actual situation, given standard yield losses. •Relatively close to Asian steel association 's data for flat products. •Under-estimate s long product capacity.

Capacity by product

-A comparison of capacity data by product (MBR vs. WSD)-

✓ Wide gaps between MBR and WSD's estimates

Rolling capacity by product and region (thousand metric tonnes)



Sources: Metal Bulletin Research, World Steel Dynamics .

Capacity by product

-A comparison of capacity data by product (MBR vs. Steel association data)-

- ✓ Capacity by product is not available from official sources except from some Asian economies
- ✓ MBR's data are closer than WSD from these Asian association's data but wide gaps remain for long products

Capacity by product according to steel association data and Metal Bulletin Research

	Total Long	Total Flat	Plate	Hot rolled	Cold rolled
China (2011)	496,650	364,650	92,580	272,070	87,570
Korea (2011)	22,457	52,400	13,590	38,810	23,436
Chinese Taipei (2011)	16,360	11,963	1,334	10,629	9,063
Indonesia (2010)	7,474	3,610	3,610		1,540
Malaysia (2010)	8,150	4,050	850	3,200	2,720
Philippines (2010)	5,920	1,700		1,700	1,210
Thailand (2010)	12,412	8,400	1,300	7,100	2,700
Vietnam (2010)	10,040	600	600		2,780
Australia (2010)	3,365	4,750	450	4,300	2,000
Total Steel associations	**582,828**	**452,123**			
Total, MBR data	**471,122**	**460,777**			

Notes: Total flat capacity is the sum of plate and hot-rolled coil capacity and thus avoids double counting.
Sources: CISA, KOSA, TSIIA, SEAISI, Metal Bulletin Research.

Other data-related problems

- Methodological concerns:
  - Assessing yield losses
  - Duplication/double-counting
- Competitive issues limit the possibility to share such data:
  - In some cases, only a few companies produce certain steel product lines.