



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

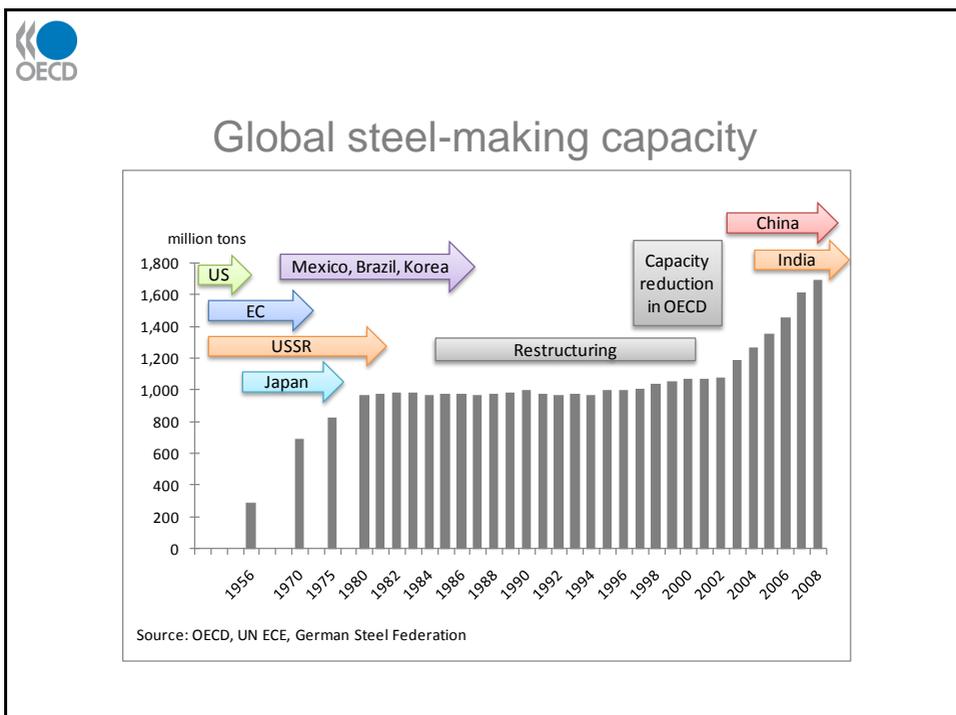
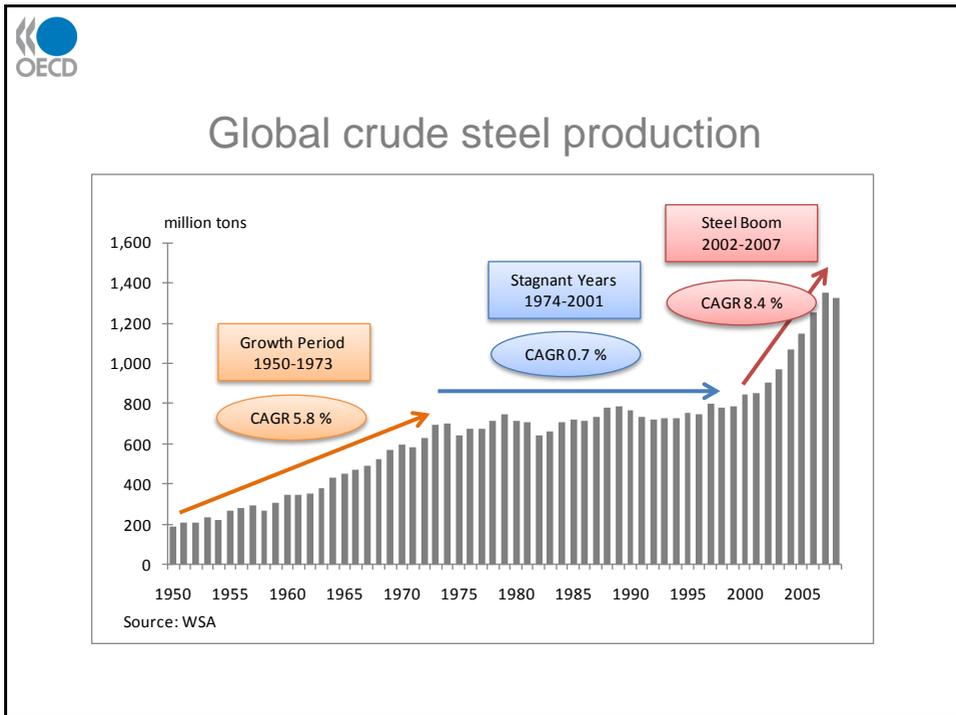


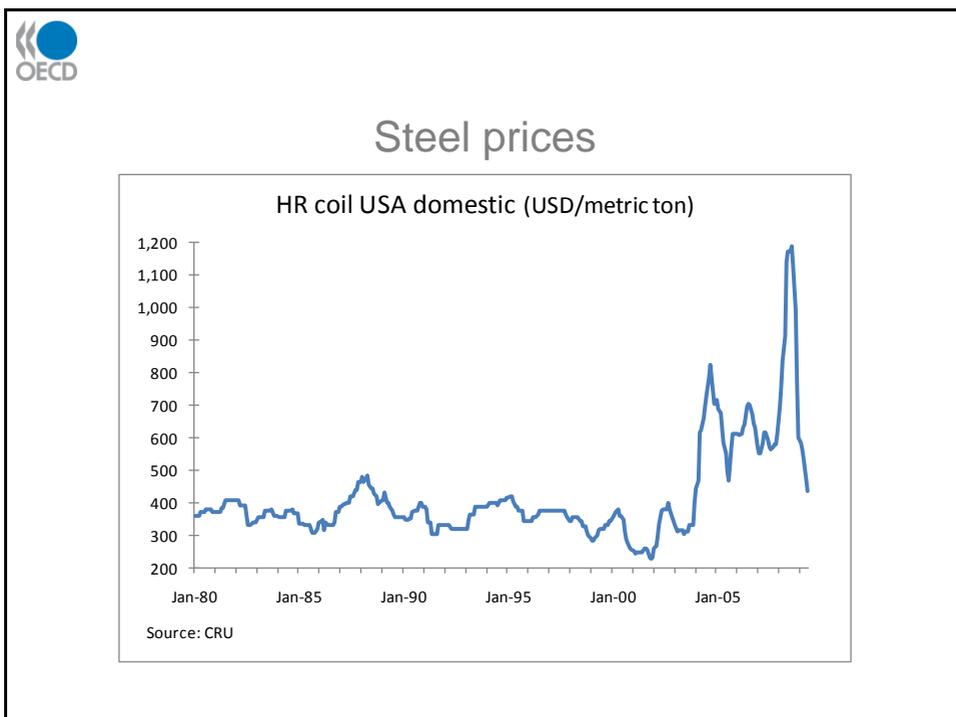
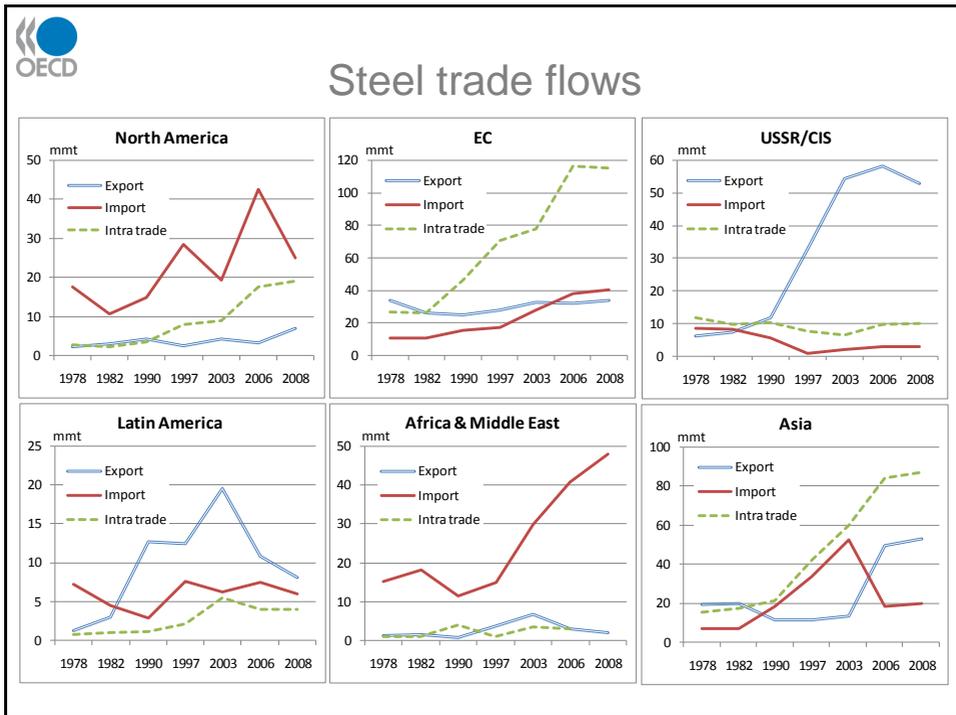
Policy responses to steel crises

66th Steel Committee Meeting
Paris
9 June 2009



I. Development of the Global Steel Industry from 1950 till 2007/8



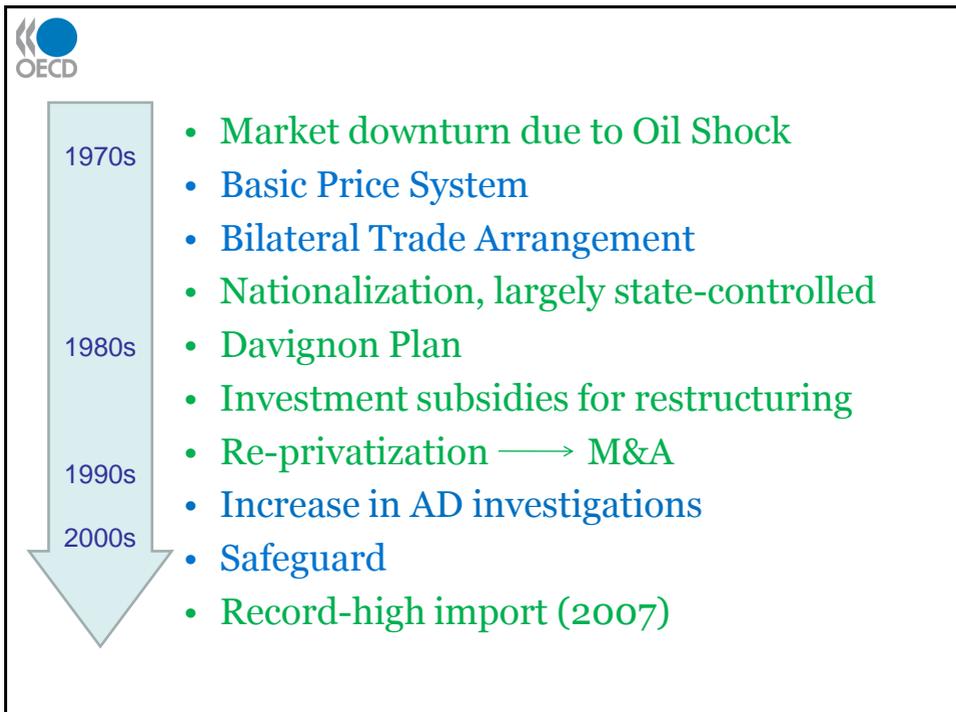
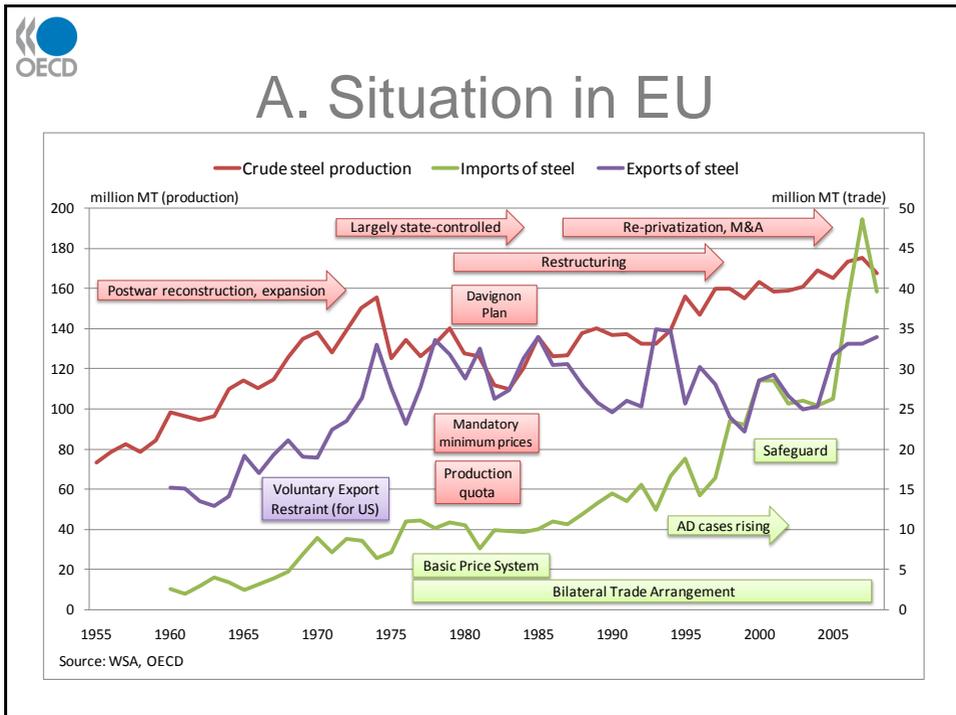




- Despite the rise of the global steel industry, the industry was marked by a series of crises in various parts of the world
 - Early 1970s to late 1970s
 - 1980 till early 1990 and
 - 1995 till 2005



II. Regional adjustments to the various crises





The Steel Industry in Europe 1952 – 1974

- Very strong economic growth
- Creation of a single European market for coal and trade, abolition of all trade barriers
- Continuously growing crude steel capacities, steel production and steel labour force



Main response to counter the 1974 crisis

- Massive financial intervention at all levels of government to :
 - complete investments in new capacities decided upon before the slump
 - to maintain existing capacities regardless of profitability and despite of indications of further declines in demand;
- Overriding motivation: to the maximum extent possible maintenance of the labour force; avoidance of social upheavals due to massive lay-offs



Outcome

- The much needed capacity cut backs in form of plant closures made little progress
- The situation did not improve but worsened:
 - Imbalance between demand and supply grew
 - Price levels and profitability deteriorated
 - Competition among member countries was distorted due to subsidy competition
- In response in October 1980 EU member countries agreed that the steel industry was in a “manifest crisis”



The 1980-1988 steel crisis

- In view of the declared “manifest crisis” the following measures were taken by the Commission (Davignon plan)
 - production quotas;
 - minimum price mechanism;
 - viability audits and subsidy regulations;
 - massive plant closures;
 - social measures; and
 - accompanying measures to protect the market during the restructuring period including
 - Voluntary Restraint Agreements (which were not prohibited by the then prevailing GATT rules)
- In addition some 36 382 Million ECU were paid by Member countries as a means of encouraging reductions in capacity. Total reduction in steel making capacity amounted to some 31 million tons.



Results of the Davignon Plan

- Significant surplus capacity was taken out of the market (slightly more than 40 million tons)
- Steel production was concentrated in most efficient installations
- Total workforce fell by approximately 47.7% in between 1977 and 1990;
- Productivity per worker increased by 107.5 % during this period



The 1992 – 1996 steel crisis

- After a brief recovery between 1989 and 1991, the steel industry faced a new crisis in the early 1990s.
- The approach adopted was not one of direct intervention by the authorities but consisted of common parallel action: by the industry capacity reduction and the Community facilitating industry's task, including:
 - Social support
 - External measures (VRAs)
 - State aid
- The changes made in the early 1990s did not end the process of restructuring of European steel industry, further changes occurred but were based on the same policy approach agreed upon in the early 90ties

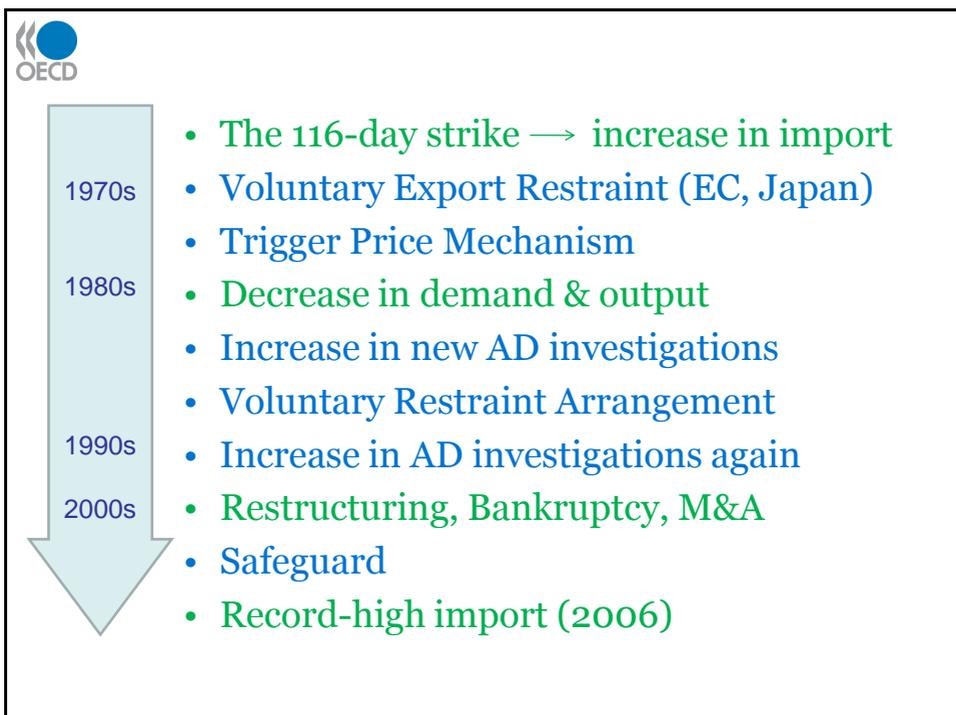
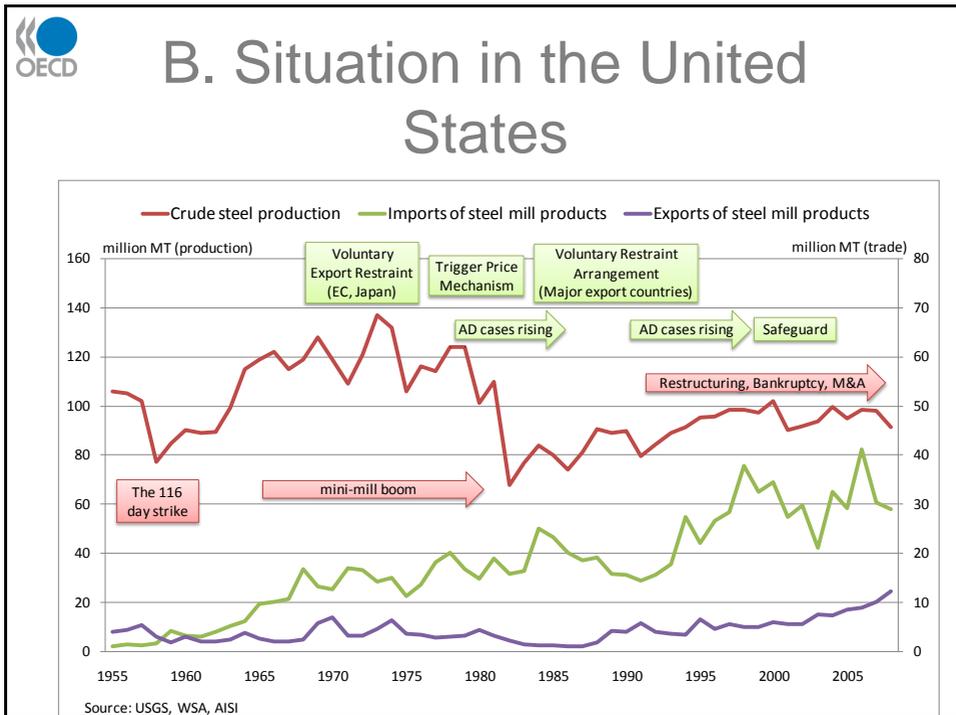


Conclusions

- Overall the restructuring efforts led to:
 - strong market orientation of the industry
 - a massive reduction in surplus capacity;
 - a significant reduction in the labour force and to an increase in productivity;
 - a fundamental changes of the industry marked by massive privatization, unprecedented consolidation, cross border mergers and further specialization
 - banning of all state aid by member states except those authorized by the Commission and limited to research and development, environmental protection and restructuring under condition of a cut of capacities.



- Two different approaches:
 - the steel crisis of 1980-1988 was addressed by strong direct intervention by the Commission and very substantial subsidies from Member States,
 - the 1992-1996 period was characterised by much more limited intervention by governments, there was a further significant reduction in over-capacity, with labour force reductions being accompanied by social measures.





The Steel Industry in the US -1950s and 1960s

- Very strong economic growth
- Very strong steel demand
- Low-cost domestic sources of iron ore and coking coal
- Continuously growing crude steel capacities
- Continuously growing steel production
- Continuously growing steel labour force



Challenges to be faced

- Around 1965 the US steel scene changed and ever since then the industry faced a number of external factors primarily, but not exclusively, due to governmental support by competitors to their industry resulting in:
 - capacity expansion in various parts of the world leading to overcapacity and significant import increases
 - non competitive pricing methods/pressures
 - other non-competitive practices such as market access restrictions, lack of effective competition and/or bankruptcy laws etc
- But also internal factors such increasing costs of production, less efficient facilities, technologies, etc.



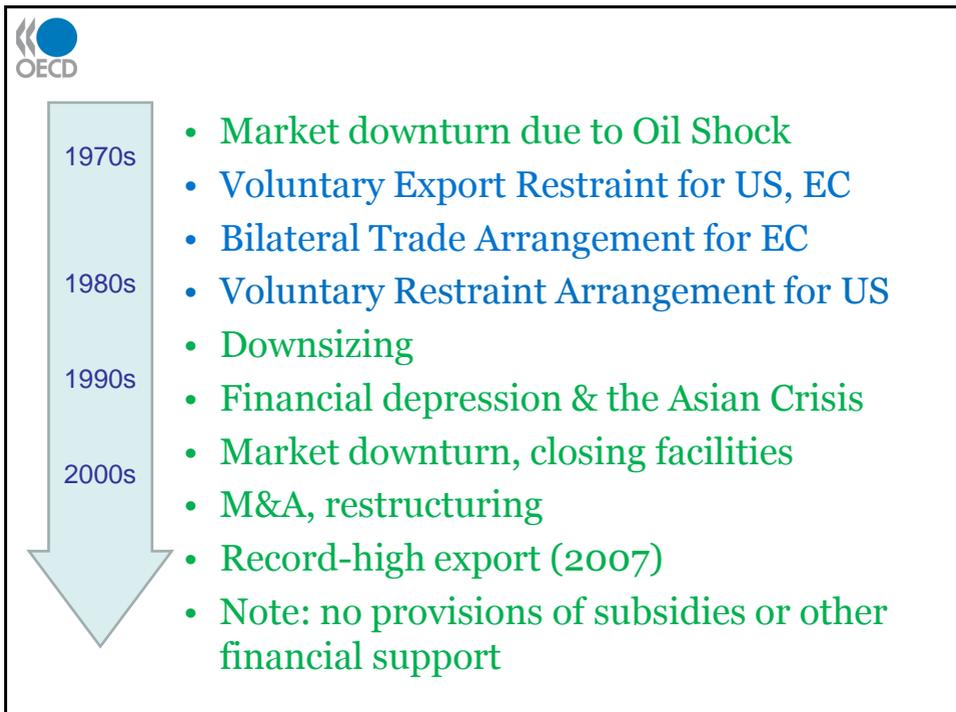
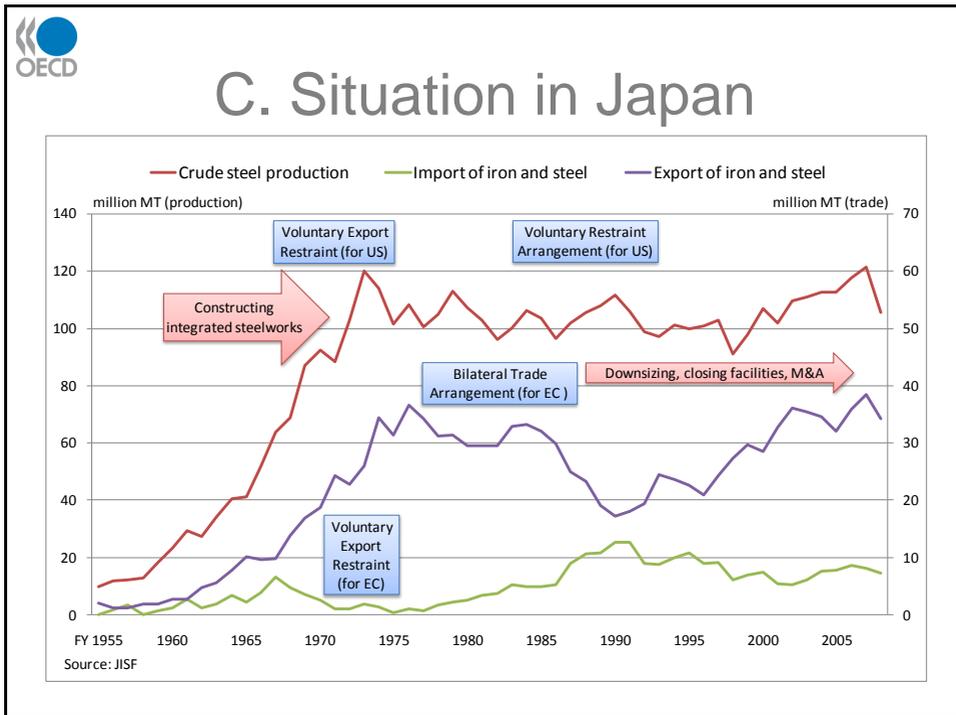
Main policy responses

- To respond to external challenges the following policy responses were used over the last decades
 - agreements with other economies as regards voluntary export agreements
 - intensified use of trade remedy legislation
 - invoking escape clause provisions and safeguards
 - the Solomon Plan – the Trigger Price Mechanism – Steel Trade Liberalisation
 - Multilateral Steel Negotiations
- Coinciding with governmental policies were, like in most other main steel producing economies, efforts by industry to restructure and modernise steel making facilities.



Of the various policy responses, use of trade law was most important

- Sudden and rapid increases in US imports accompanied by equally rapid price declines were most often closely linked to various forms of intensive support measures by emerging but also long established steel producing governments. This led over the years to the filing of numerous US AD/CVD cases filed against all main economies exporting to the US market
- The aim of such AD/CVD cases was to alleviate the injured US industry from competition due to unfair pricing practices or government support.





III. Root causes for the various crises

- Subsidies causing maintenance of inefficient capacities and overcapacity
- Measures and regulations distorting fair competition and trade
- Anti- competitive behavior that distort markets
- In addition more recently globalization added new competitive conditions and pressures and thus contributed to cyclical developments



V. What kind of lessons can be drawn?

- Not to have recourse to any of the measures which have been the root of problems, at the best any of these could provide temporary relief but not lead to long lasting solutions



What should be done?

- Encourage further consolidation in particular but not exclusively in some emerging economies
- Encourage and if necessary assist the phasing out of facilities unlikely to be economically viable
- Encourage the continuation of the shift from volume to value in particular in developed countries
- Tackle root causes for trade actions making it less likely that trade frictions and trade remedy actions will occur
- Examine whether multilateral negotiations on a steel subsidy agreement should be resumed