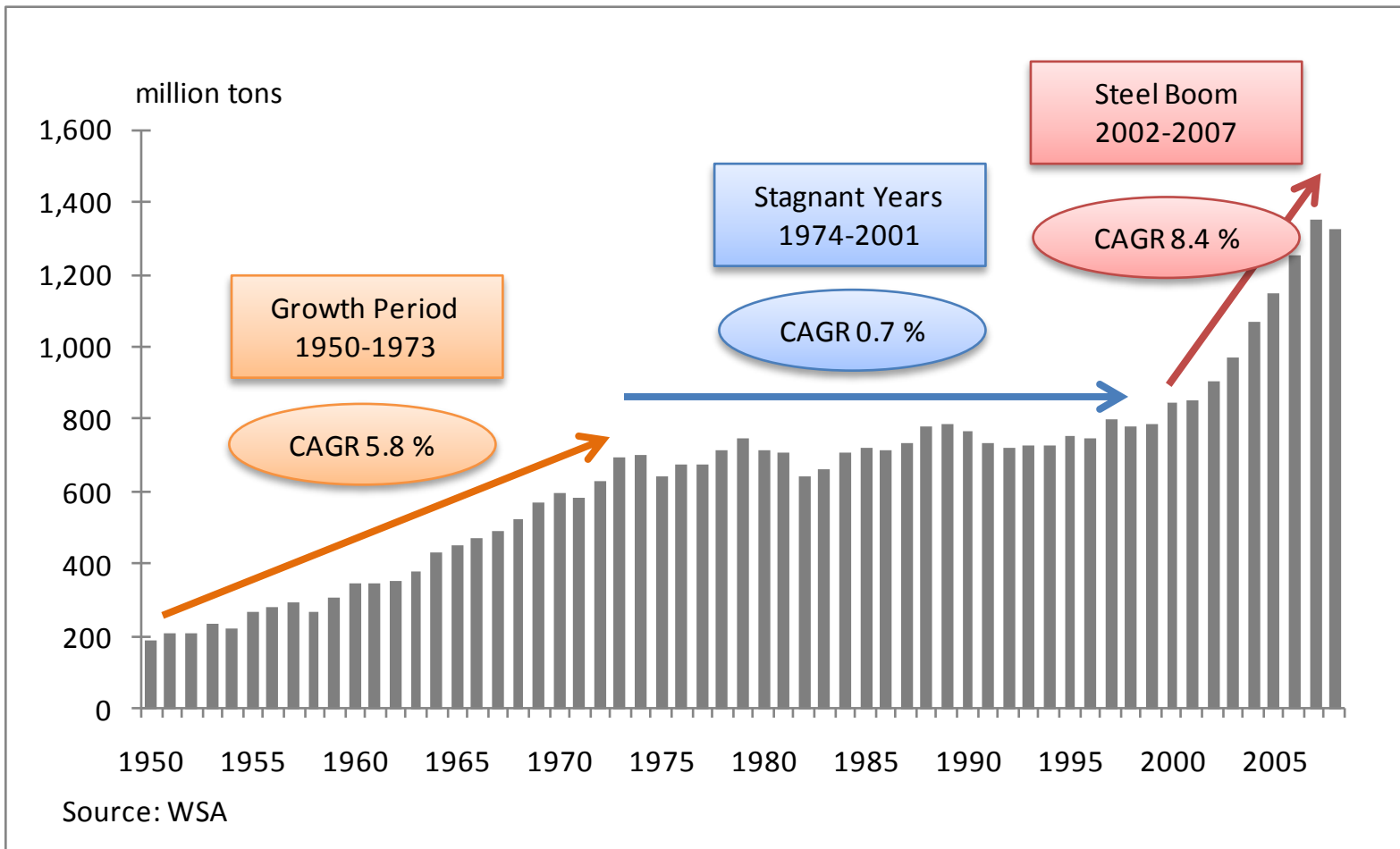




# OECD Steel Committee

Presentation for the  
Council Working Party on Shipbuilding  
9 July 2009

# Crude steel production worldwide



# 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

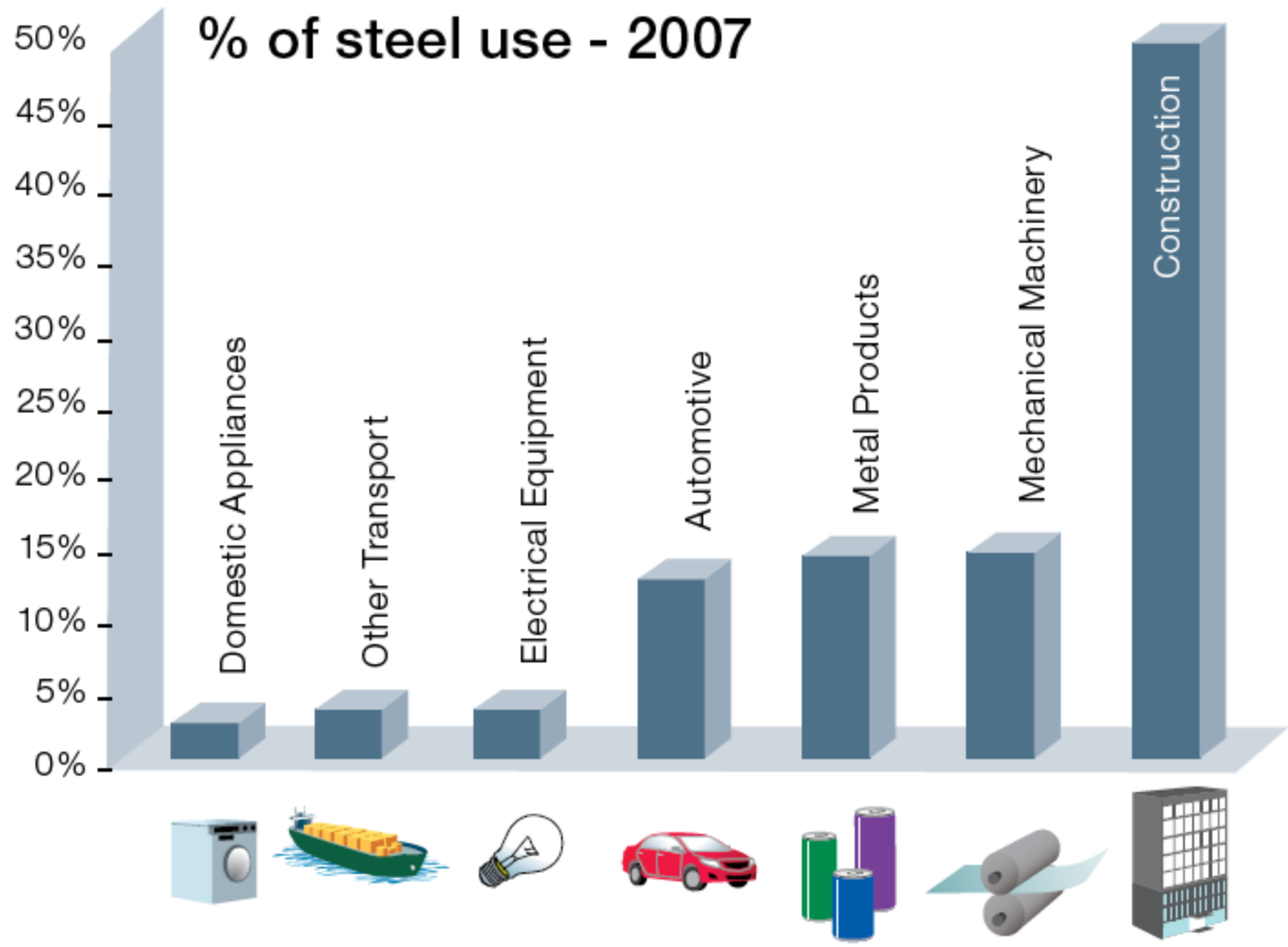
# Steel Committee established in 1978

- “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

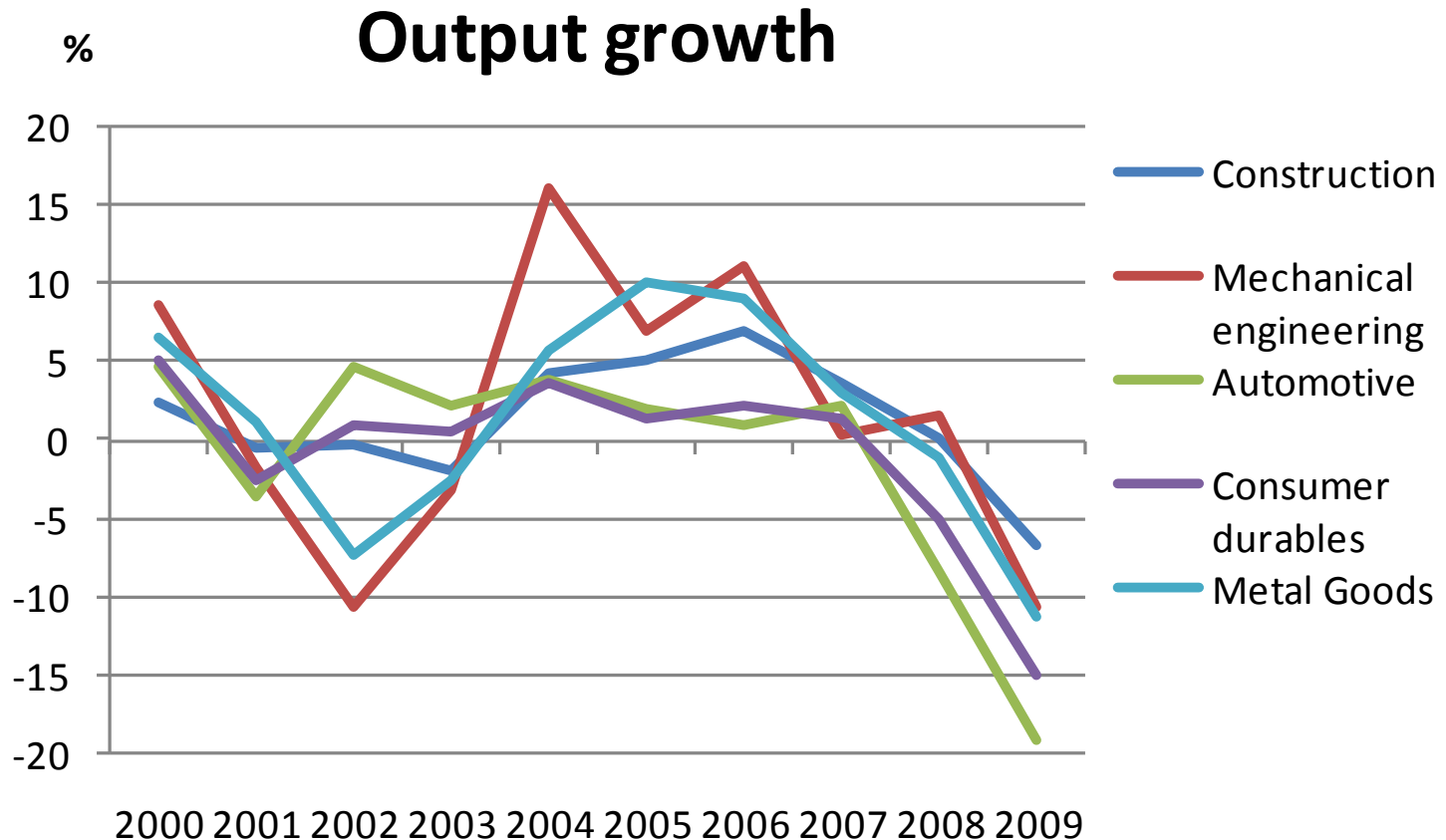
- The global economic crisis has pushed the world steel industry into recession
  - Demand for steel has contracted sharply
  - Steelmakers have introduced major production cuts
  - Trade in steel has declined sharply
  - Steel prices and employment are also down substantially
- Steelmaking capacity continues to increase despite the market downturn

# Steel use by sector



# Steel-using sectors plunge

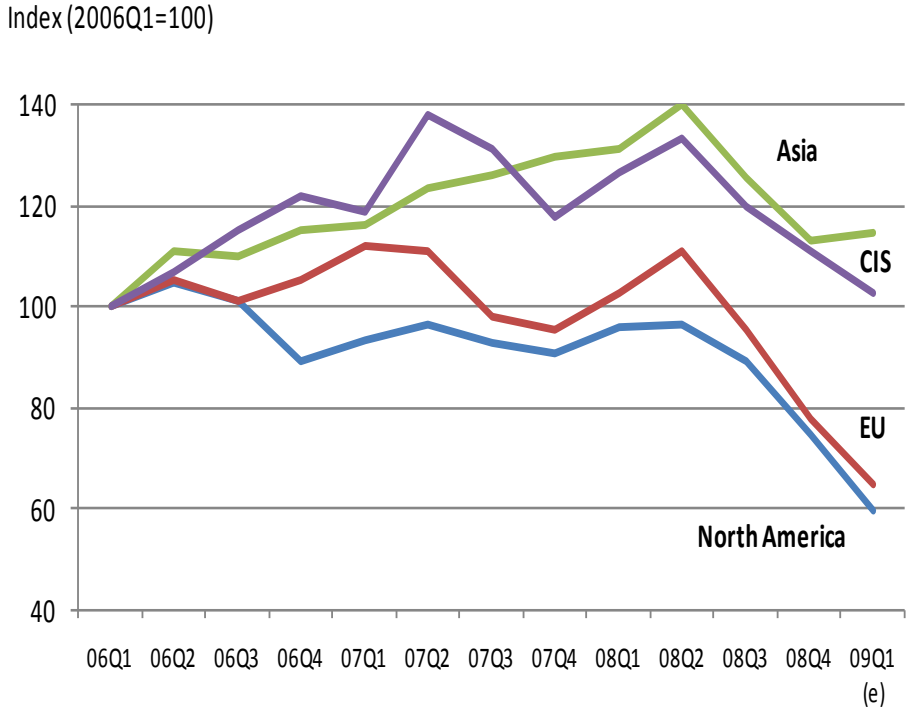
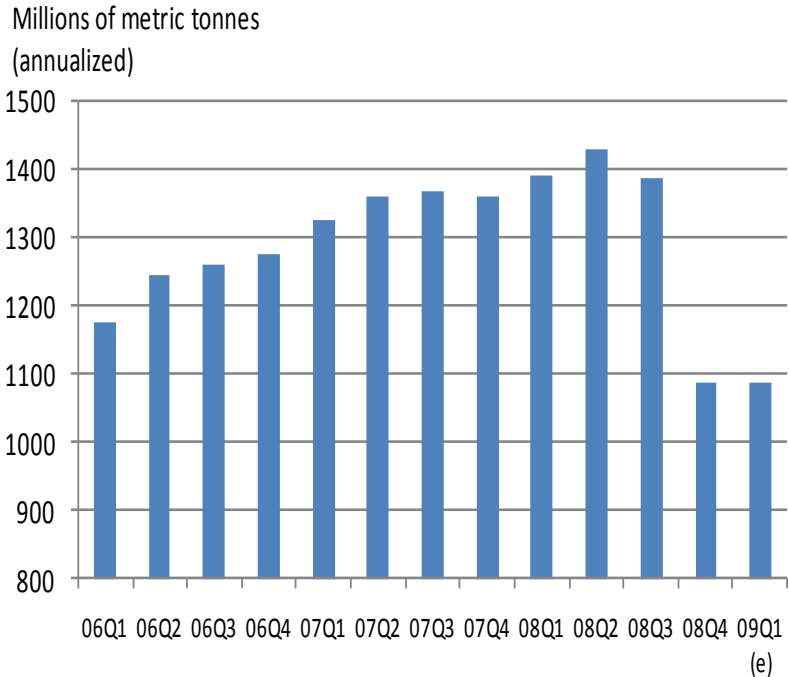
- Slowdown was occurring already before the financial shock
- The financial shock reduced capital availability
- Causing a contraction in fixed asset investment



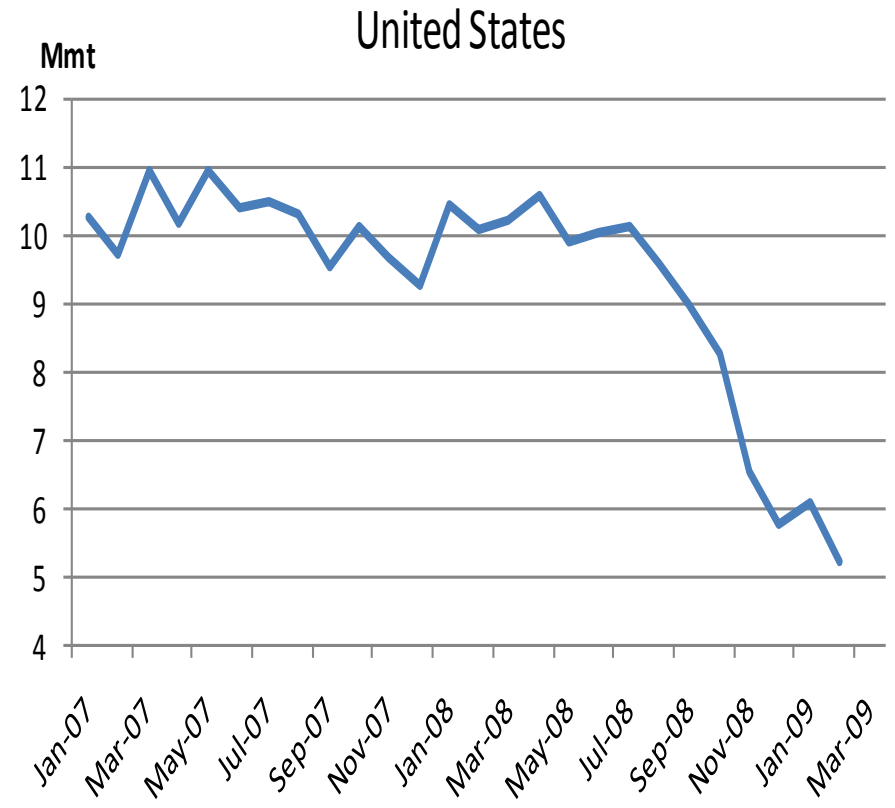
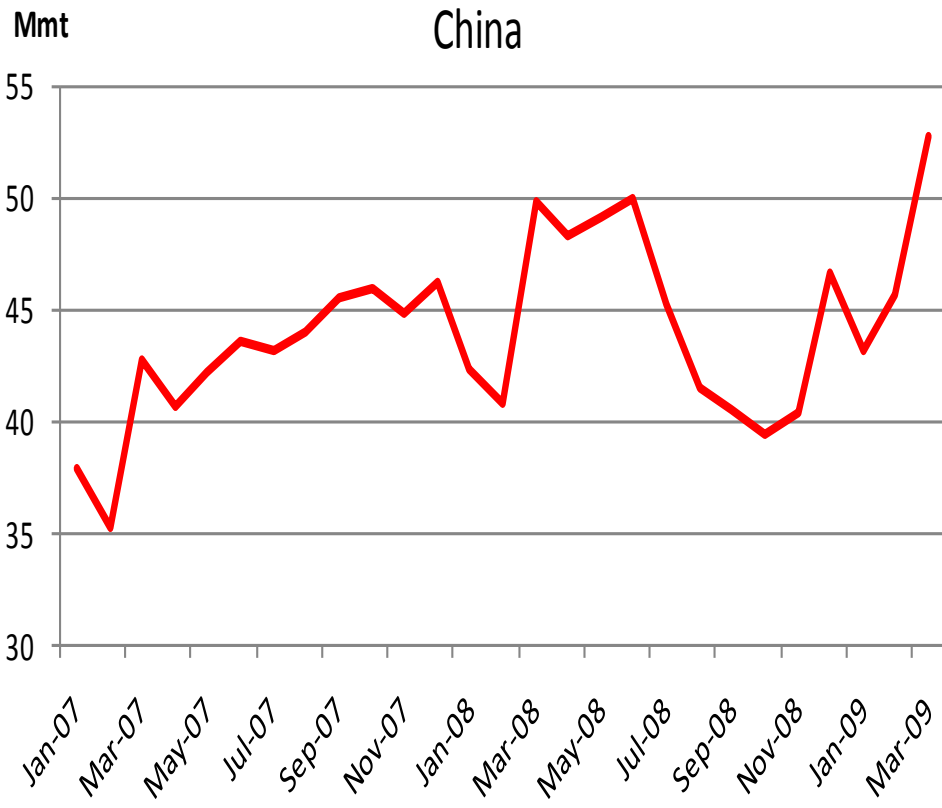


# Global and regional apparent steel demand

- 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

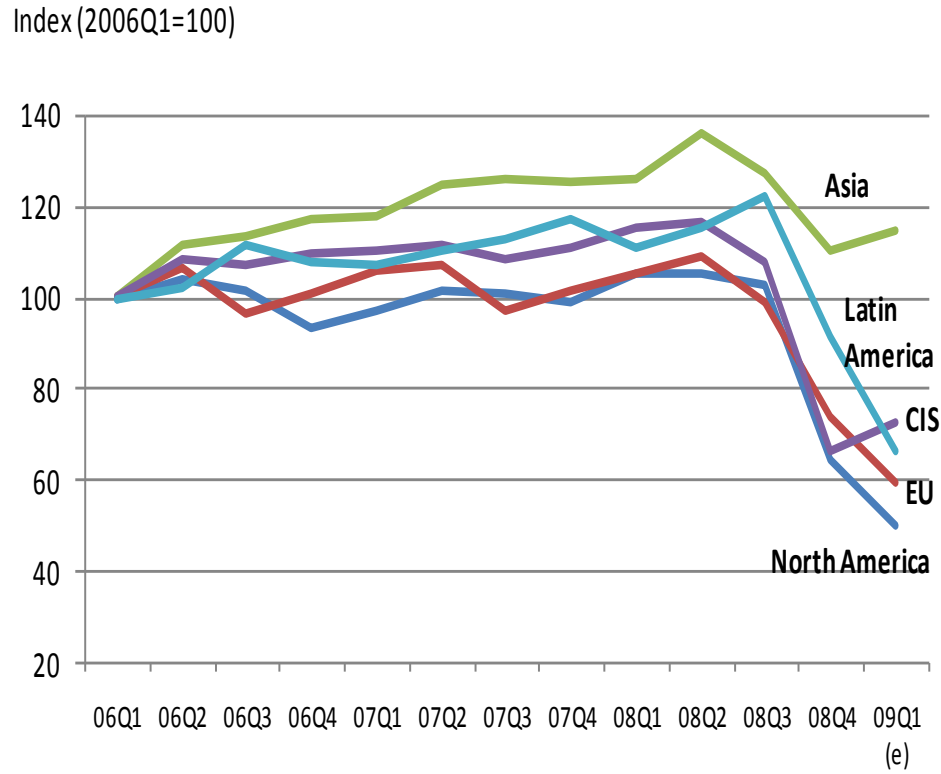
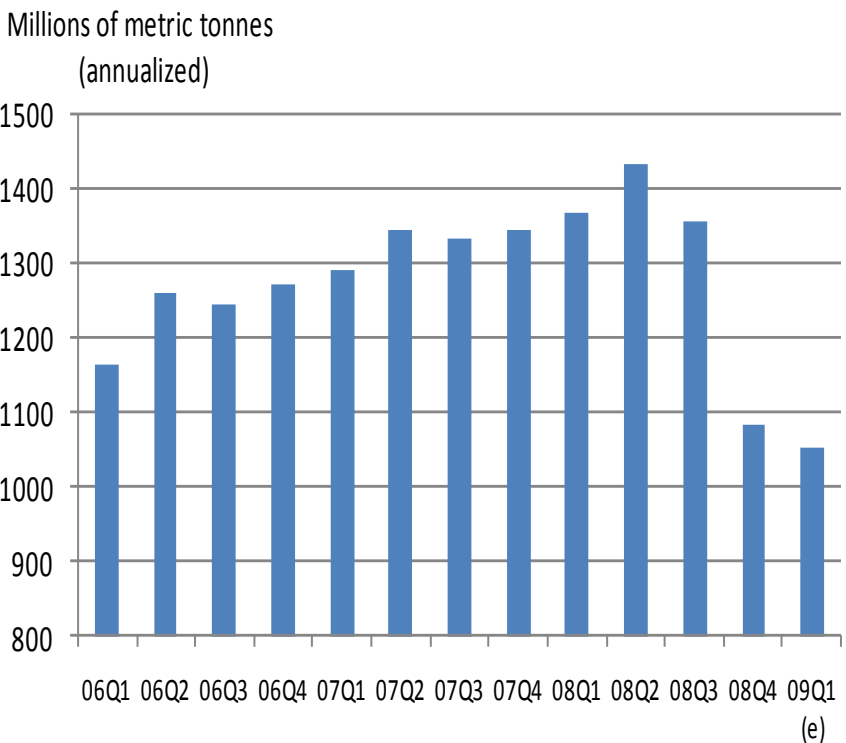


# Apparent steel consumption in China and the United States

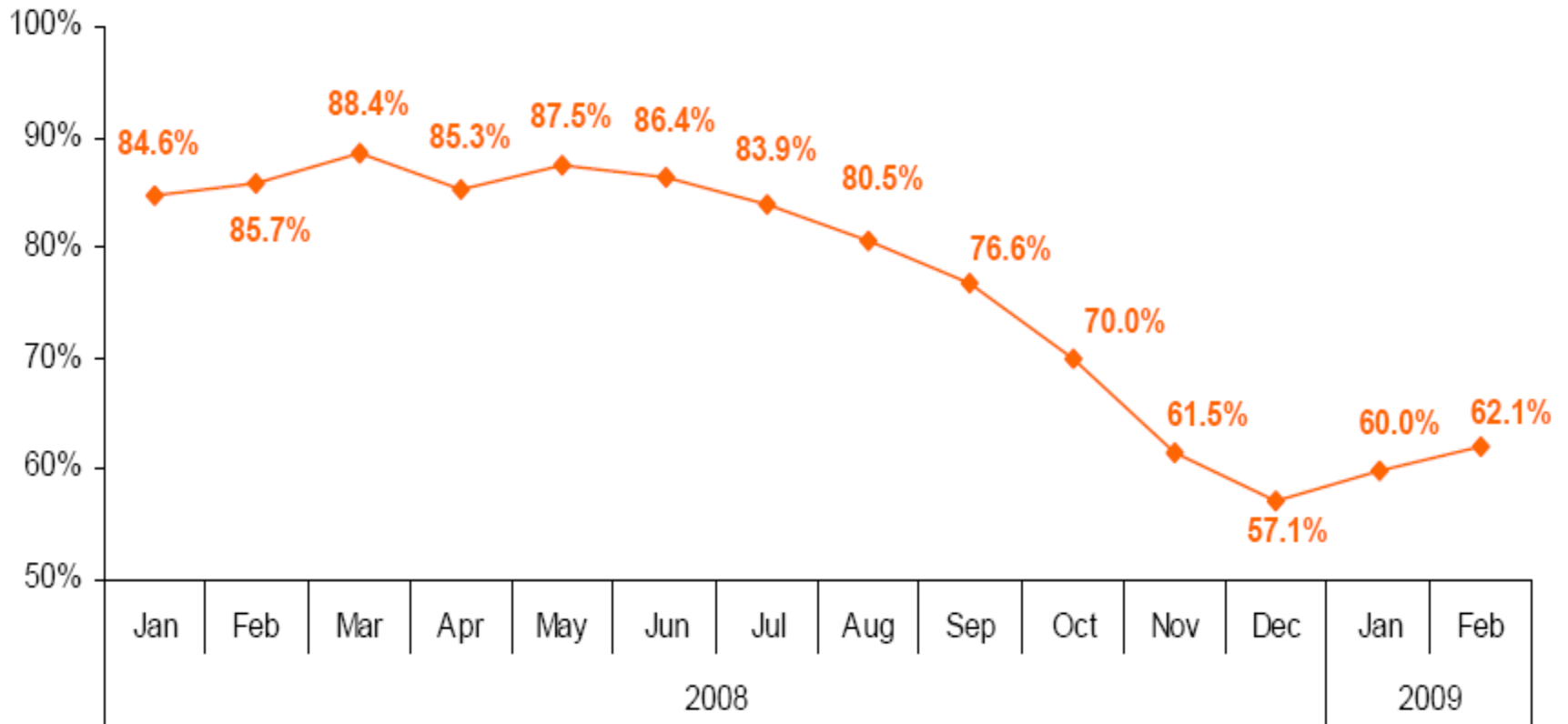


# Global and regional crude steel production

- 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

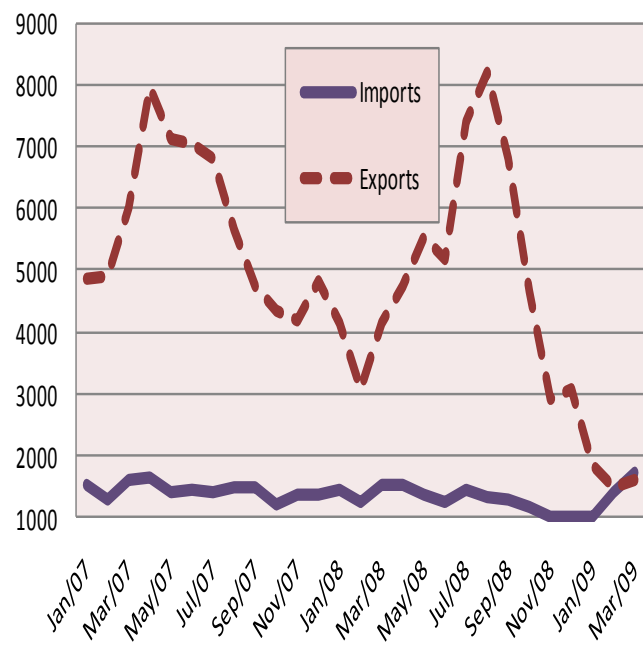


Source: worldsteel

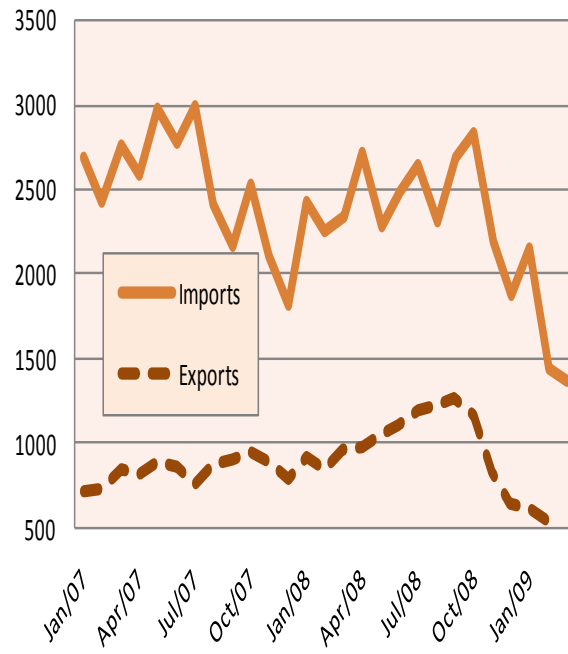
# Steel trade in selected economies (thousand tons)

- 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

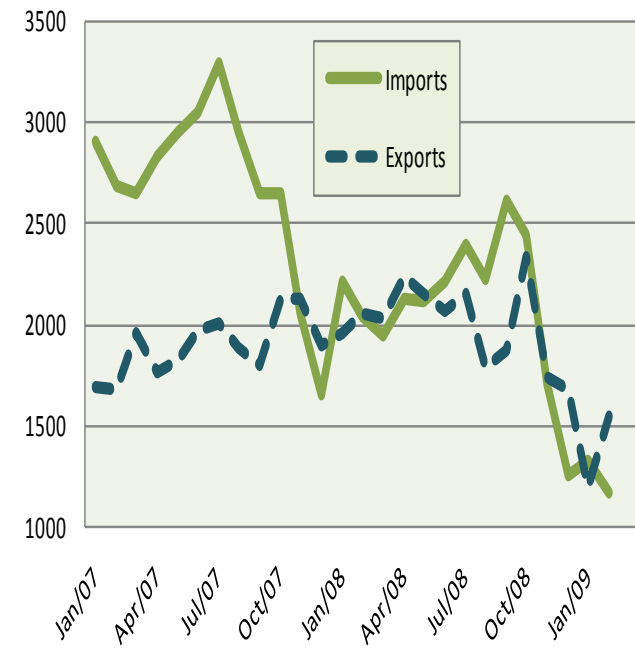
China



United States



European Union 27

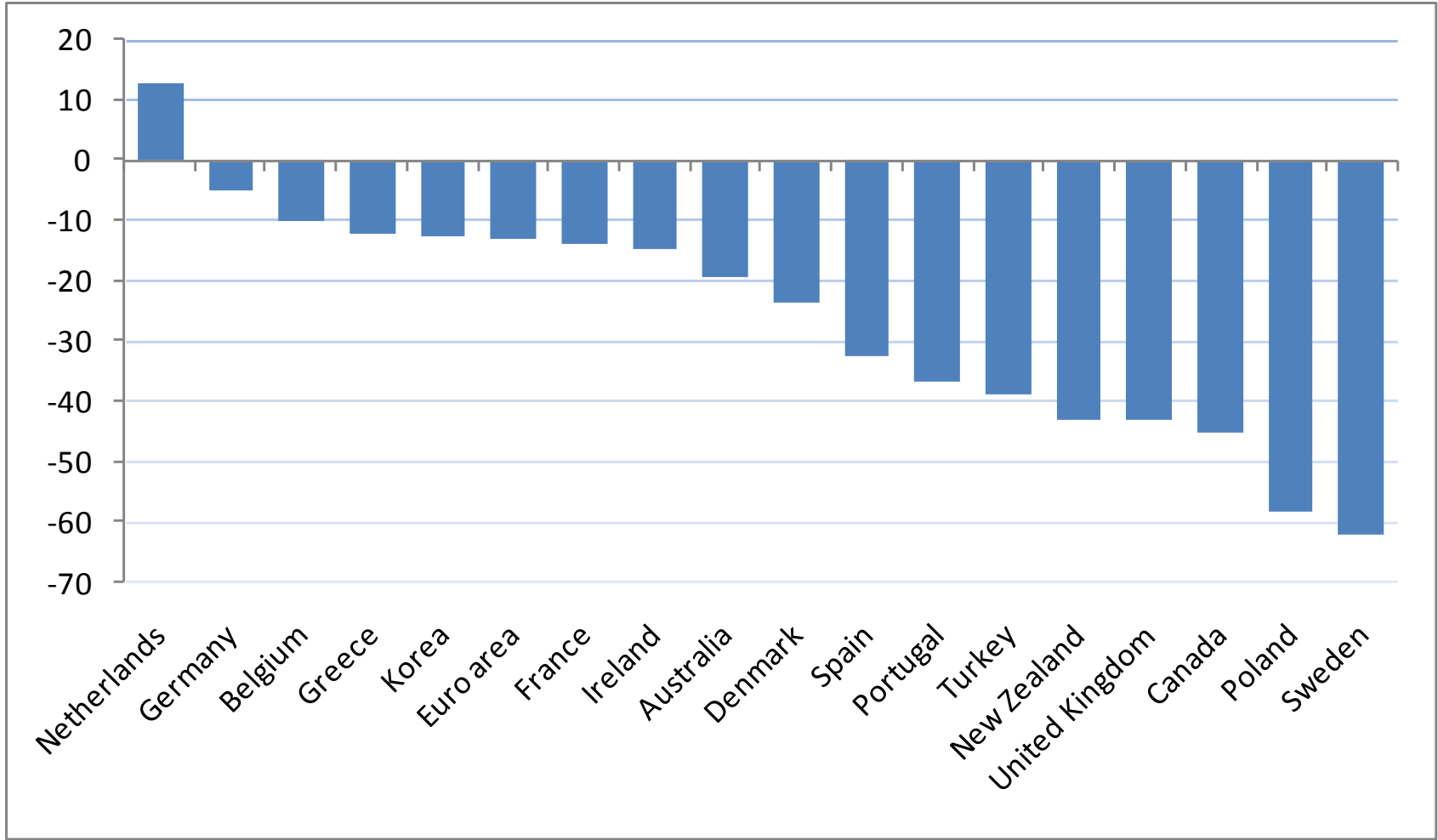


# Recent policy developments

- 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

# Outlook for steel

## Residential permits, % change



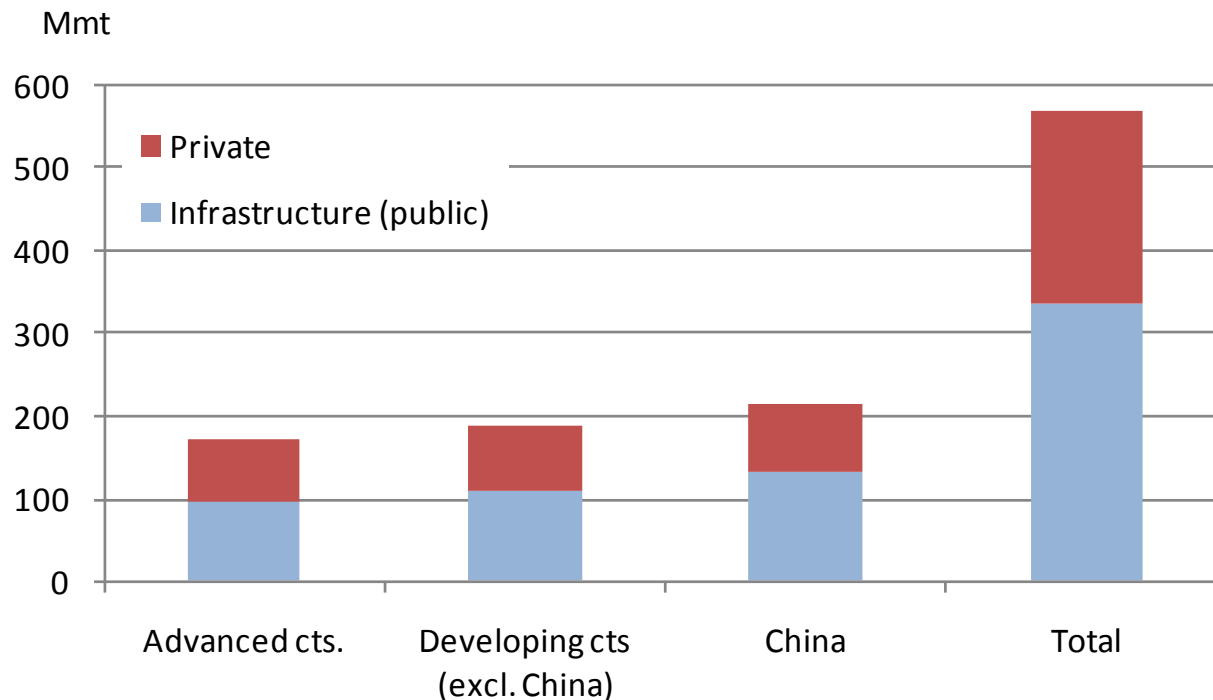
Monthly data mostly ending between December 2008 and April 2009; three-month average over the last year three-month average, seasonally adjusted.

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

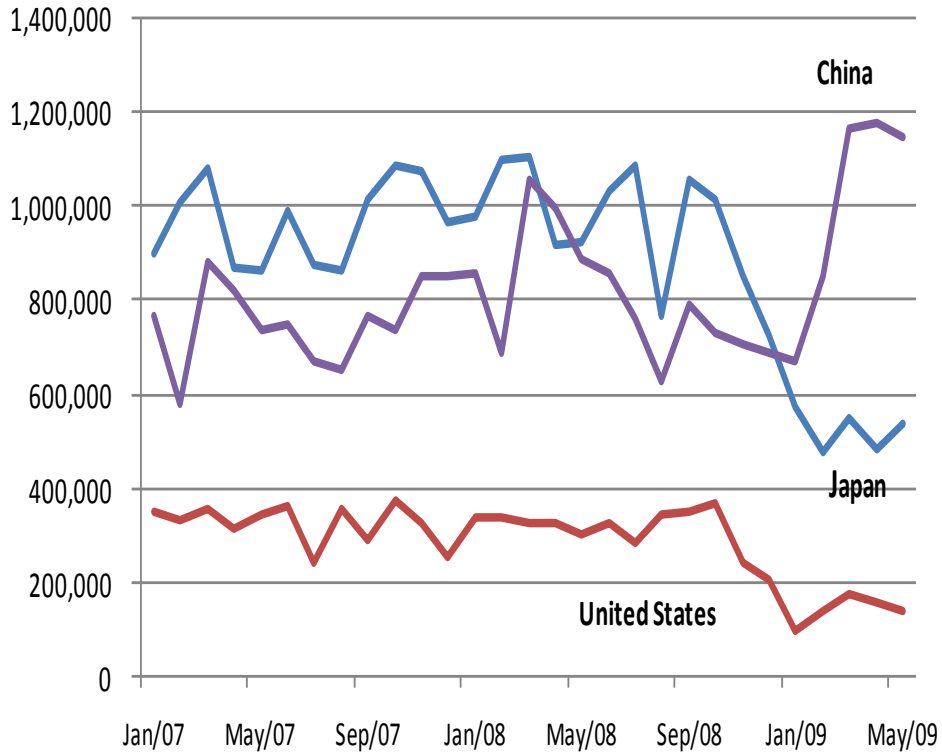
- Highly uncertain calculations
- The potential indirect impact of public infrastructure spending could be on the order of 130 million metric tons over the next two or more years, the lion's share of which would occur in China

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

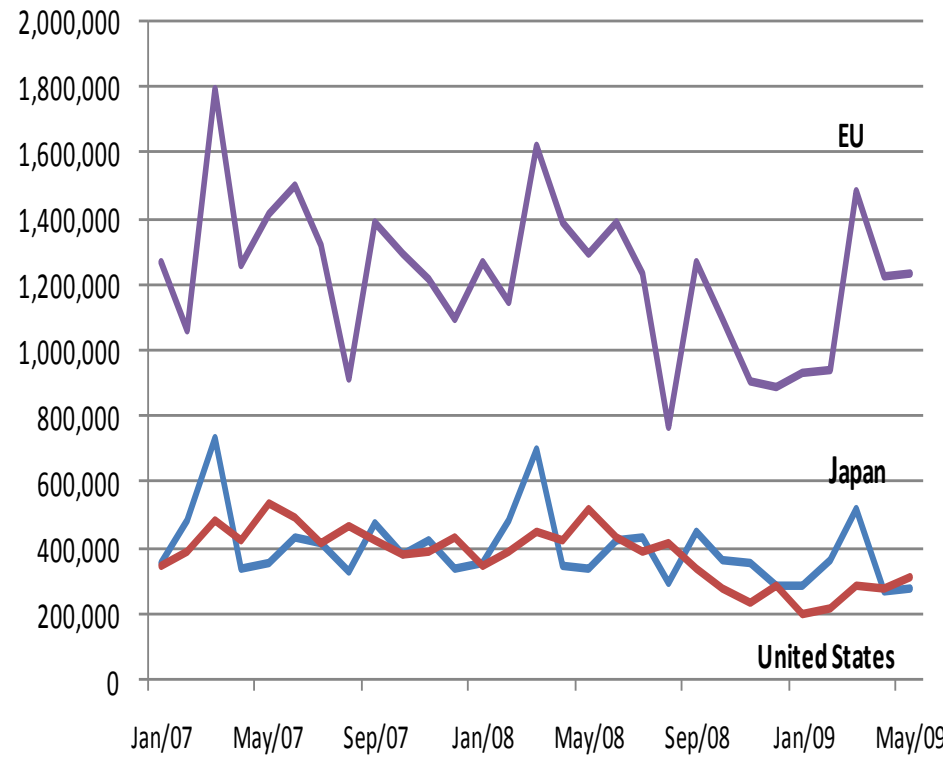
# Production and demand for passenger cars

- 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

### Production



### New registrations/sales



# Mechanical engineering industry

- 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

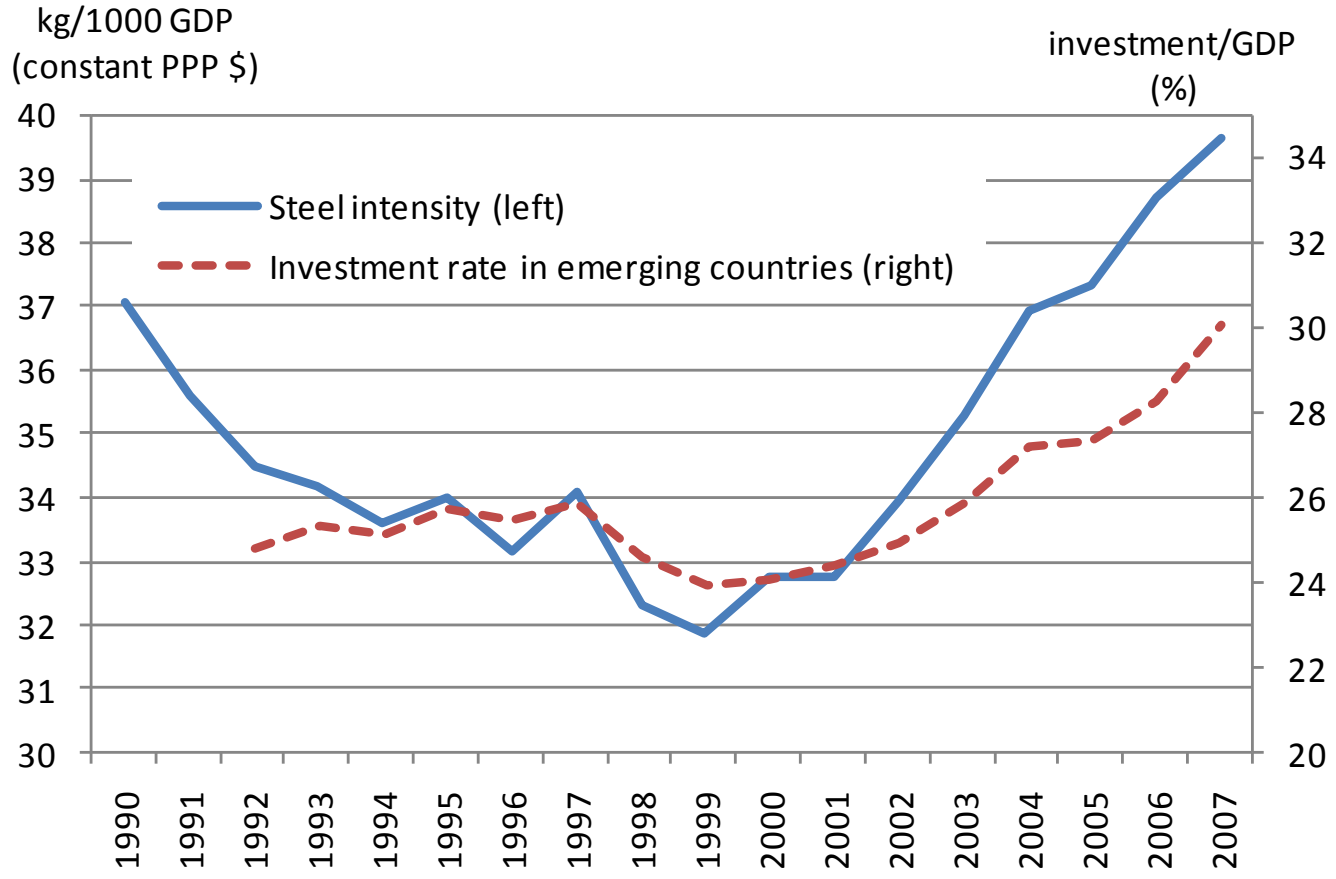
(Outcome of deliberations of 66<sup>th</sup> Steel session)

- 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

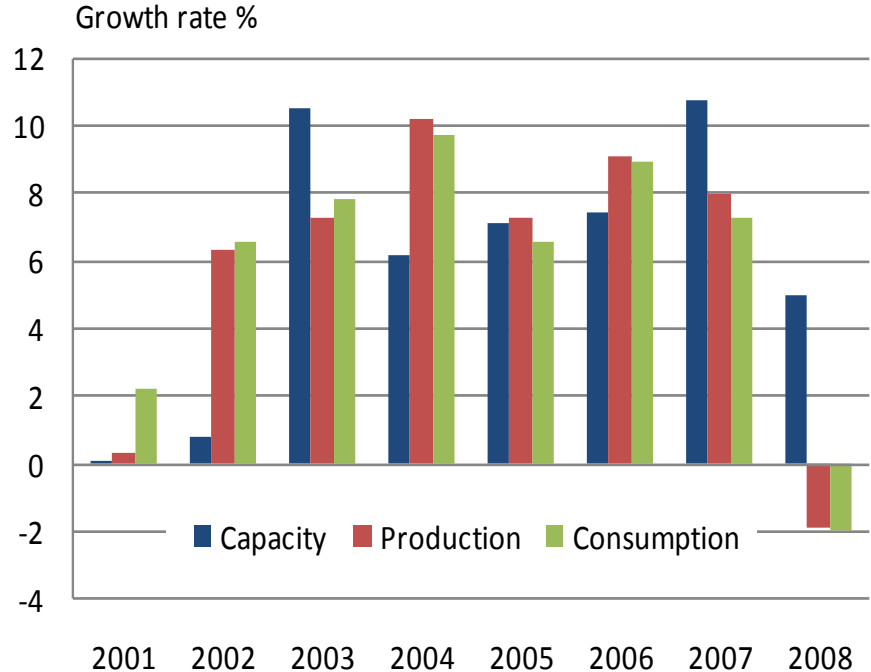
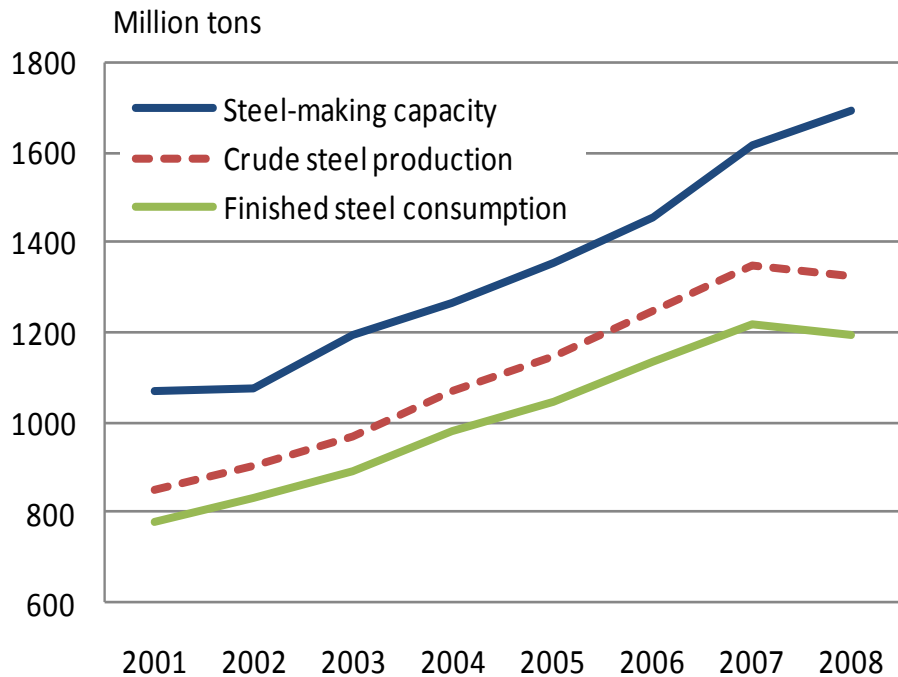
- Economic growth in China shifting towards household spending and away from investment and exports
- Rise in global steel intensity expected to slow significantly



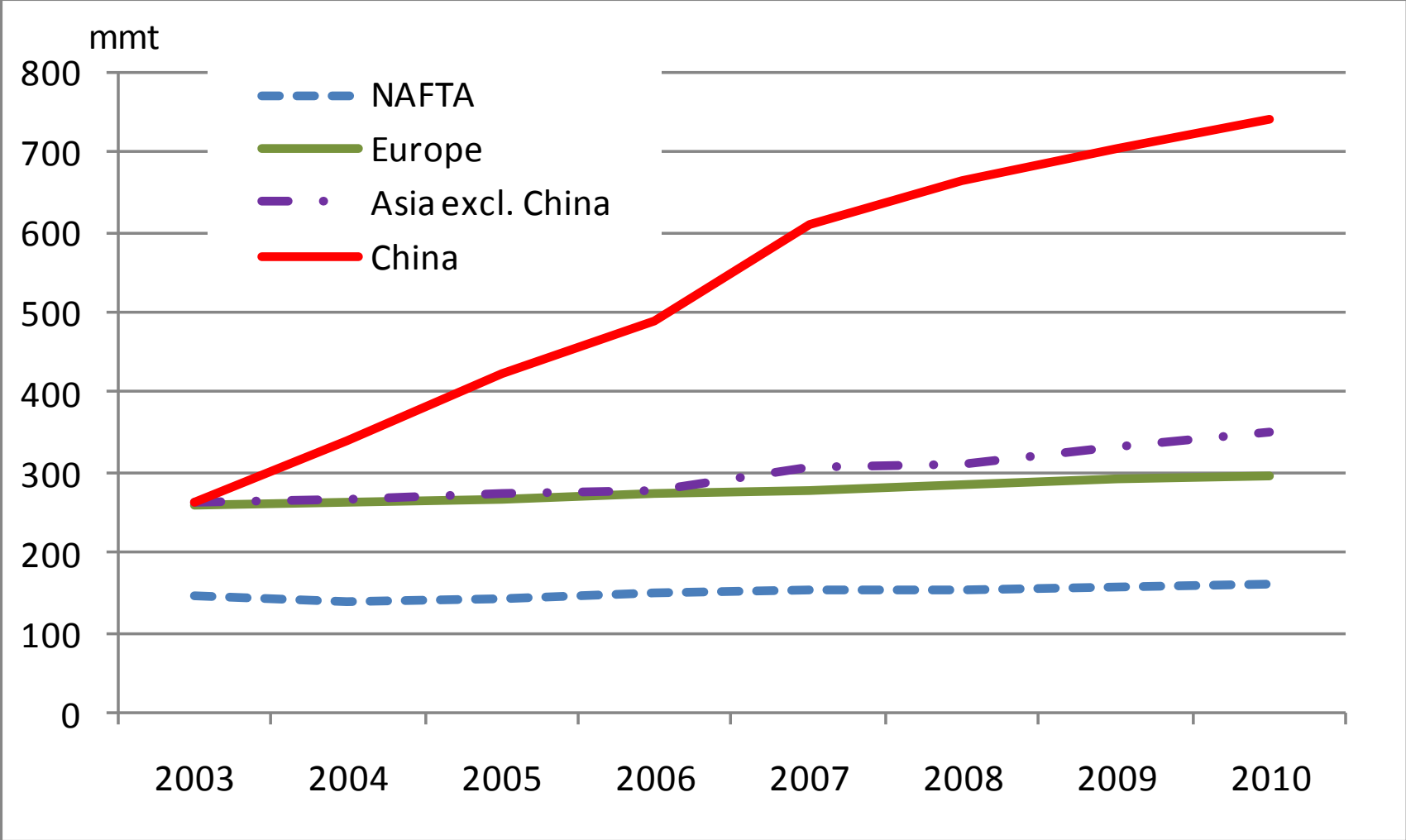
# Risk of oversupply?

## 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

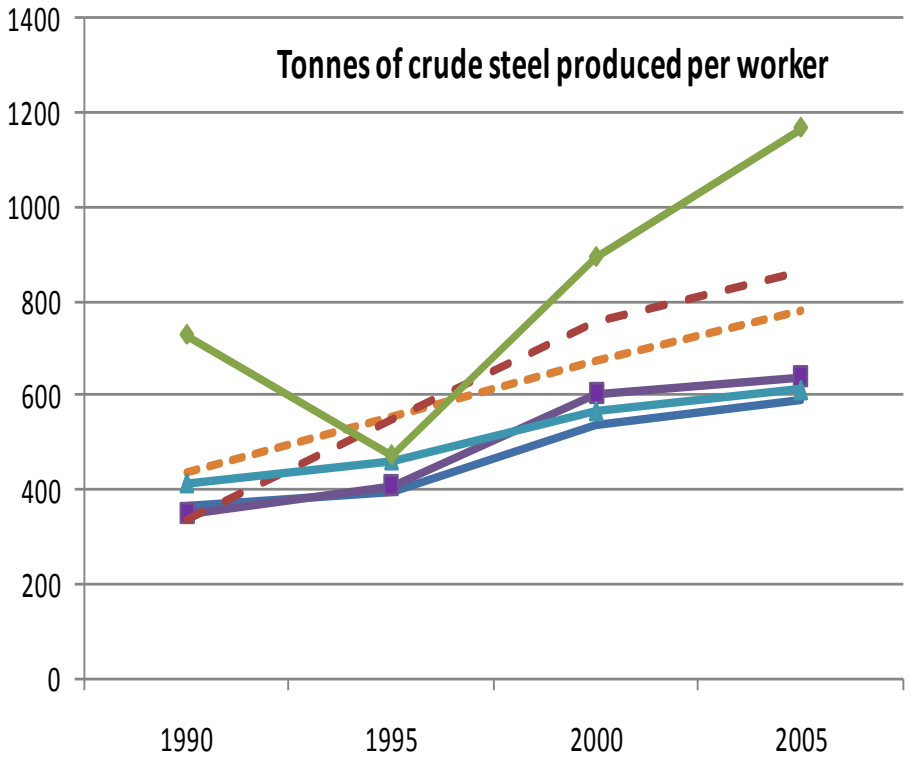
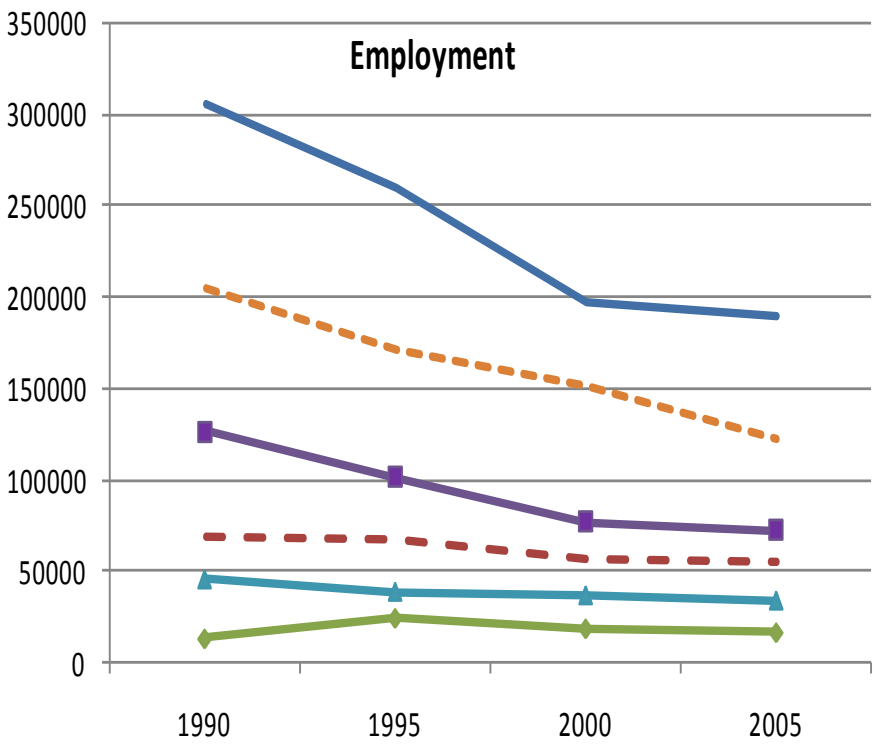


# Growth in world capacity of steel production



# Employment and productivity in the steel industry

- Japan
- Germany
- France
- United States
- Korea
- Chinese Taipei



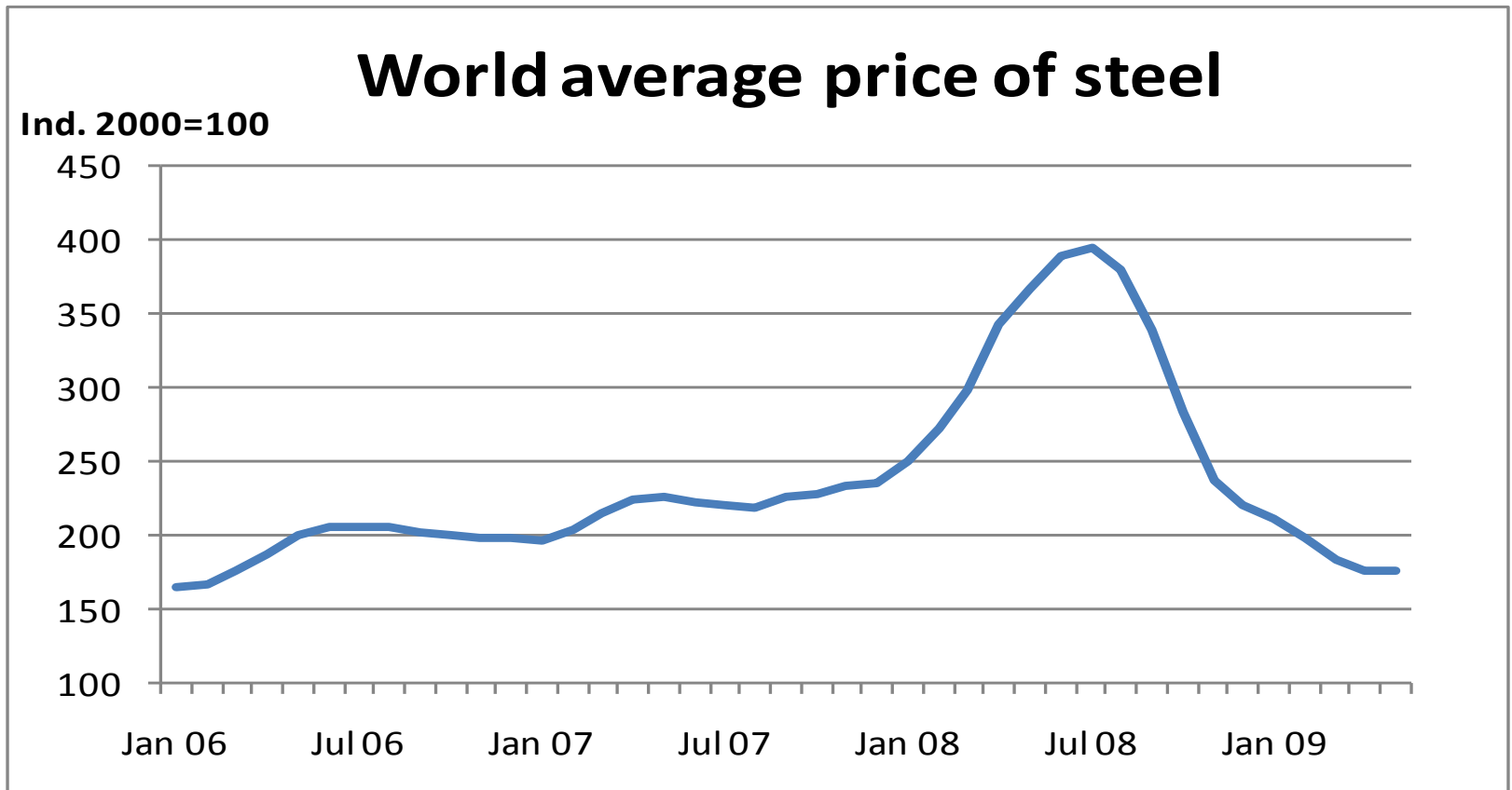


# Employment declines have accelerated

- 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

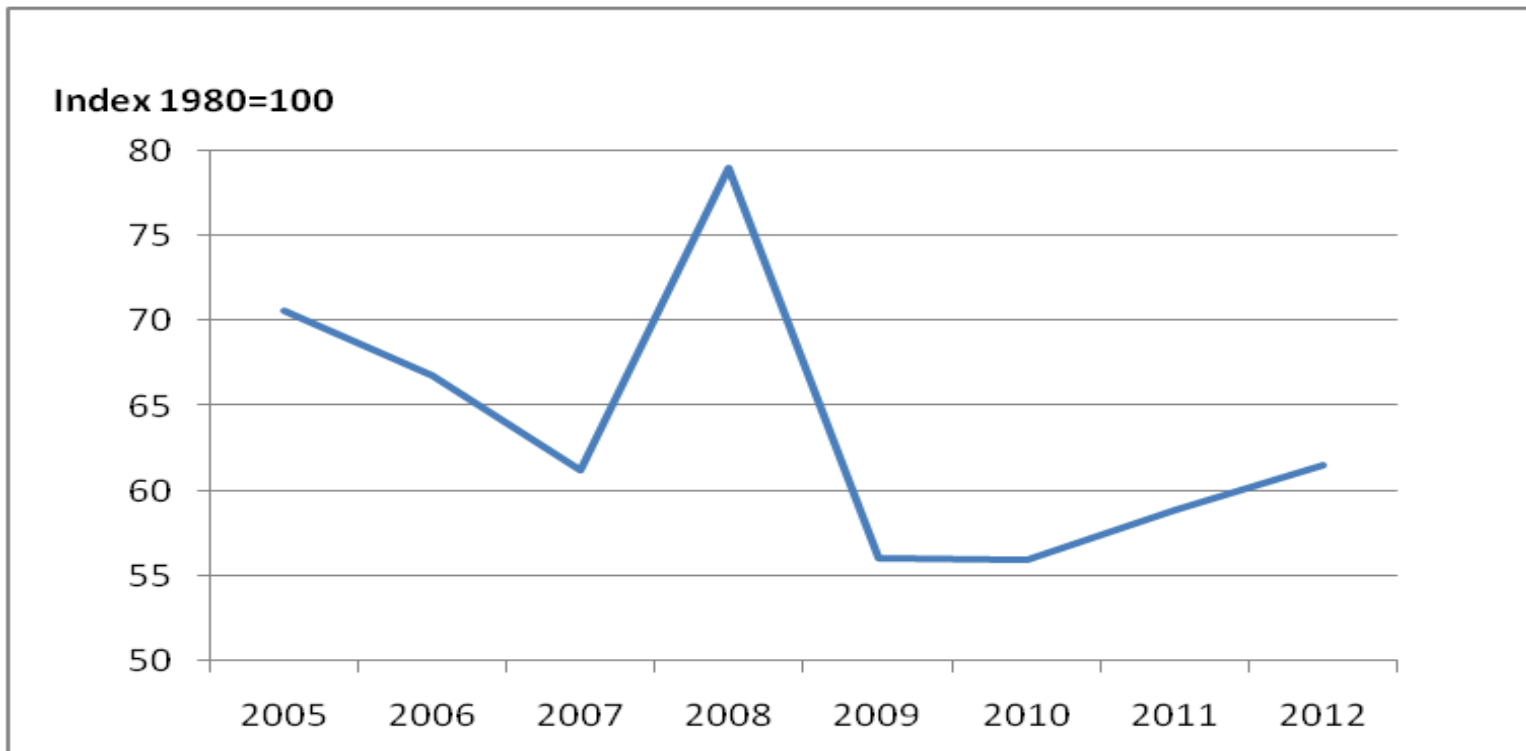
# Domestic steel prices by selected regions

- 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



# Model-based forecast of the real steel price

- 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

Egypt	Feb. 2009	Import tax of 10% with a minimum value, on top of already applicable 5% import duty. (CR sheets, galvanized sheets and organic coated sheets)
India	Nov. 2008	Increase in import duties on a range of iron and steel products from 0 percent to 5%.
Indonesia	Feb. 2009	Increase of import tariffs on some steel products.
Russia	Feb. 2009	Increase of import tariffs on certain steel and steel products (effective from 14 January 2009, for next nine months).
Turkey	Jan. 2009	Import tariff increase on a number of products such as: hot rolled flat products; cold rolled flat products; coated flat products.
UAE	Feb. 2009	The government has reinstated a 5% customs duty on rebar effective from 15 February 2009.
Vietnam	Dec. 2008	Increase import tariffs on semi-finished products, bars and rods.

# Non-tariff measures

## – Mainly developing Asian economies

Argentina	Nov. 2008	Introduction of non-automatic import licensing requirements (affecting only a very narrow product group of steel)
India	Nov. 2008	Introduction of licensing requirements for imports of certain steel products.
India	Feb. 2009	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
Indonesia	Jan. 2009	Introduction of mandatory standards for steel products (hot-rolled steel sheets and coils and zinc-aluminium alloy coated steel sheets and coils)
Malaysia	Nov. 2008	New technical regulations for 57 steel products, requiring certificates of approval for conformity with Malaysian Standards.
Thailand	Mar. 2009	Introduction of new requirements for Approval under domestic Product Quality Standards

# Export-facilitating measures

- The Chinese government abolished/cut export tax rebate and imposed/increased export tax to help curb strong growth in exports in 2005-2008.
- After the global economic crisis, various export-facilitating measures were introduced.

China	Dec. 2008	Elimination of export duties on certain flat steel products (5%) combined with cancellation of steel export licensing requirements.
China	Apr. 2009	Imposition of VAT export rebate on certain flat and long steel products (13%)
China	Jun. 2009	Imposition of VAT export rebate on HR coil (9%)
India	Nov. 2008	Elimination of export duties on steel products (which were imposed in May 2008)

# Trade remedy measures

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