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Excess capacity is weighing on the current and future economic health of the global steel industry, according to the OECD Steel Committee

Statement from Risaburo Nezu, Chairman of the OECD Steel Committee[i]

The Committee:

- discussed the slow growth prospects in the global steel market;
- exchanged views on the effect of excess capacity on the economic health of the steel industry; and agreed on identifying future work for addressing it;
- expressed concerns about trade frictions in steel and raw materials trade; and
- exchanged views on potential policy measures to improve steelmakers' energy efficiency.

Global steel demand growth is expected to remain moderate in 2013 and 2014

In the first three quarters of 2013, global steel production reached 1,582 million metric tonnes (mmt) in annualised terms, representing an increase of 2.7% compared to the first three quarters of 2012. Chinese steel production increased by 8% year-on-year in the first three quarters of 2013, reaching a new all-time high of 783 mmt in annualised terms. In the rest of the world, steel production was 798 mmt in the first three quarters of 2013 (annualised), down 2% year-on-year.

After having eased in the first and second quarters of 2013, global steel consumption growth picked up to 9% (y/y) in the third quarter of 2013, according to data supplied by the Commodity Research Unit (CRU). This acceleration was driven by an increase in steel consumption in China, i.e. by 15% in the third quarter of 2013. Steel consumption in the rest of the world also increased, rising by 3% year-on-year in the third quarter of 2013 after three quarters of contraction, resulting in an increase by 1% for the consumption in the rest of the world for the three first quarters of 2013 compared to the same period the previous year.

With global economic growth forecasts having been revised downwards for 2013 and 2014, steel consumption is expected to increase at a moderate pace going forward but not fast enough to keep up with capacity growth.[1] According to the October 2013 forecasts of the World Steel Association, world apparent steel use (ASU) is expected to increase by 3.1% in 2013 and by 3.3% in 2014, up from a growth rate of 2.0% in 2012. In 2013, apparent steel use in developed economies is expected to decline by 1.6%, marking a slight improvement following the 1.7% decline witnessed in 2012. In emerging markets, apparent steel use is expected to grow by 4.9% in 2013, with Chinese steel consumption rising by 6%.

Excess capacity is weighing on the current and future economic health of the global steel industry

Excess steelmaking capacity, the economic health of the steel industry, and steel market openness are inter-linked. Concerns have been raised in the Steel Committee that trends in these three dimensions may have become worse since the global financial crisis of 2008. Excess capacity has reached very high levels, the industry's financial situation is weak, and trade protectionist measures seem to be increasing.

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[1] Global growth forecasts for 2013 and 2014 were revised downwards in the latest OECD Economic Outlook released on 19 November 2013, in large part due to weaker prospects in many emerging market economies.

Given the concerns about excess capacity, the Steel Committee discussed how the current financial situation of the steel industry compares to the previous steel crisis of the late 1990s based on an initial study carried out by the Secretariat. Members considered the following observations:

- **The financial performance of the industry could be viewed as worse now than during the crisis of the late 1990s**. Recent trends in key financial indicators, such as profitability or indebtedness, raise serious concerns and suggest that the global industry is in a very difficult economic and financial situation.

- **Excess capacity and profitability seem to be linked**. The global capacity utilisation ratio (a measure of excess capacity) appears to have an important effect on steel industry profits. However, profits also depend on a myriad of other factors, including raw material prices, the business cycle, as well as a number of important firm-level determinants.

- **High levels of excess capacity cloud prospects for the industry's profitability**. As global steel demand is expected to grow slowly in the coming years and with many new investment projects coming on stream, excess capacity will probably remain high in the medium term. As a consequence, excess capacity will continue to weigh on the operating profitability of the global steel industry.

Members highlighted that market mechanisms should work in order to allow closures to happen when necessary and that all kinds of measures artificially supporting capacity should be avoided. In particular, the importance of avoiding market distorting policies such as subsidies supporting the emergence of new capacity or delaying the closure of failing companies, and trade barriers was stressed. On the other hand, the role of governments in facilitating adjustment in the sector was emphasized. Acknowledging the seriousness of the situation, the Committee decided to continue its dedicated work in this area in order to deepen its understanding of the different aspects of the problem and move ahead in identifying different options for addressing it.

Steel trade and policy developments

Global excess capacity, low prices and profitability have led to a variety of trade restrictive measures including frequent recourse to safeguard measures, thereby adversely affecting the openness and dynamism of global steel markets. Some members noted that subsidized trade and dumping practices appear to be increasing. As a consequence, countries are responding with trade remedy actions which are legitimate measures to counter-act unfair trade provided they are compatible with WTO rules. However, some members noted that the abuse of these measures should be avoided. Moreover, raw material export restrictions on steelmaking materials are becoming increasingly sophisticated, such as combinations of export restrictions with certain localisation requirements. The Committee also discussed work of the OECD Trade Committee on the role of State-Owned Enterprises.

Policies to promote energy efficiency in the steel industry

Participants discussed a preliminary report on policies that promote energy efficiency in the steel industry. Energy efficiency, in most cases, reduces enterprises' environmental footprint and reduces local pollution. It is also good for the viability of the steel industry as energy efficiency increases industrial entities' overall competitiveness and profitability. Government programs have been developed by some countries to leverage and help unlock private sector financing for energy efficiency in industry.

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[i] The meeting was attended by representatives from OECD countries as well as Brazil, China, Malaysia, Russian Federation, Romania, Chinese Taipei, South Africa and Ukraine.