82nd Session of the OECD Steel Committee - Chair's Statement

Weak signs of recovery, threatened by persistently high excess capacity

Statement by Ronald Lorentzen, Chairman of the OECD Steel Committee

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The Committee:

- recognised the modest recovery in the global steel market, and stressed that considerable structural imbalances remain unaddressed;
- expressed concerns about increases in steelmaking capacity and reiterated the urgency of addressing the excess capacity problem, recognising the importance of mitigating social costs associated with the necessary adjustment in this context;
- welcomed the establishment of the Global Forum on Steel Excess Capacity on 16 December 2016 with the objective to make rapid and substantial progress in addressing the challenges of excess capacity;
- expressed concerns about mounting trade frictions and stressed that markets for steel should remain as open and free of distortion as possible;
- exchanged views on developments in raw material markets and discussed policy instruments to help address environmental challenges; and
- exchanged views on the increase of trade measures in the sector and noted the relevance of global value chains.

Steel markets have improved but demand is set to remain weak

The world economic outlook is expected to improve modestly, but there are a number of downside risks. Global GDP growth is anticipated to pick up, with mixed dynamics across major economies but at lower levels relative to historical averages. While economic indicators have been strengthening, consumption, investment, trade and productivity remain subdued. According to the OECD's latest Economic Outlook of March 2017, world GDP is projected to grow 3.3% in 2017 and 3.6% in 2018, from just under 3% in 2016. The forecast remains broadly unchanged since November 2016. Risks to the outlook include policy uncertainties; financial sector vulnerabilities; weaker fiscal contribution than expected; and increased trade distortive measures.

Conditions in the world steel market have improved over the past year. However, there are indications that this trend may be temporary. The World Steel Association's preliminary assessment suggests that steel demand recovered by only 1% in 2016, following a decline of 3% in 2015. The recovery is expected to continue in 2017 and 2018, supported by strengthening growth in the emerging and developing world outside China and stable recovery in the developed world. Demand growth is nevertheless expected to remain modest as Chinese steel demand, which accounts for 45% of the world total, is anticipated to decrease again in 2017, after growing by 1.3% in 2016. A number of risks cloud the outlook. Short-term risks include: rising trade restrictions; recent trade and tax policy uncertainty in a number of countries; interest rate changes; currency fluctuations; and, the lack of clarity regarding further Chinese government economic stimulation. In addition, the sector faces longer-term challenges such as ageing populations, the move towards a circular economy, and increased digitalisation of modern economies that point towards less steel use in relationship to economic growth. Moreover, excess capacity remains considerable, capacity utilisation rates continue to be very low, and the financial situation is still challenging for most companies.

In 2016, world steel production increased by 0.8% from 2015, to 1,628.5 mmt. The upward momentum in global production was supported by a 1.2% increase in China to 808.4 mmt, as well as rapid growth of 7% in the Middle East. The year 2017 has started on a strong note in terms of production, with crude steel output worldwide rising 7% in January in year-on-year terms. Steel demand growth returned to positive territory only during 2016, and for many economies only late in the year.

Steelmaking capacity continues to grow, further increasing the excess capacity challenge

The global steel industry's crude steelmaking capacity continues to increase. The amount of steelmaking capacity closed between January and December 2016 was offset by new capacity additions, resulting in a net increase of 32.4 million tonnes per year (tpy) in 2016 (1.4%), to a level of 2,389.7 million tpy from 2,357.3 million tpy in 2015.

New data suggest that nearly 40 mmt of gross capacity additions are currently underway and could come on stream during the three-year period of 2017-19, while an additional 53.6 mmt of capacity additions are in the planning stages for possible start-up during the same time period. Developments in steelmaking capacity have been evolving rapidly and there are some uncertainties and lack of information with respect to investment and closure information. Nevertheless, the Committee agreed that the increase in global steelmaking capacity will further exacerbate the current excess capacity problem. The OECD Steel Committee is enhancing its monitoring of capacity developments, with a view to increasing transparency and raising awareness through timely dissemination of capacity information.

The Committee reiterated the urgency of addressing the excess capacity problem, for example by avoiding any direct or indirect forms of government support at home and abroad (including through state-owned entities) that incentivise the expansion of excess capacity or sustain economically unviable capacities, and ensuring that all economies provide the right framework conditions and incentives for a market-based restructuring of the steel sector. In this context, the Committee also discussed the critical importance of the mitigation of social costs associated with restructuring, in particular the impact on workers.

The Committee welcomed the establishment of the Global Forum on Steel Excess Capacity (GFSEC) that was set up by participating countries (interested OECD and G20 countries) on 16 December 2016 following a call from G20 leaders in September 2016. As mandated by the G20 leaders, the OECD facilitates the GFSEC. The OECD Steel Committee looks forward to rapid and substantial progress by the GFSEC to enhance market function and effectively address steel excess capacity.

Trade tensions are increasing amidst unresolved structural imbalances and market distortions

Despite the growth in trade measures, steel trade remains robust, with world exports of steel having averaged more than 300 million metric tonnes (mmt) per year since 2014. Steel trade growth (the average of imports and exports) has nevertheless decelerated over the last two years, showing a 1.6% annual growth rate in 2015 and turning slightly negative in 2016 (-0.1%), after averaging 8.2% over the preceding five years.

As unfair trade practices increase, trade remedy measures continued to increase throughout 2016. A number of trade restrictive measures implemented during 2016 are likely to be affecting steel trade. These include minimum import prices, quotas, use of lists of criterion values and local content requirements. The Committee expressed the importance of increased transparency and fair trade to global markets and stressed that markets for steel should remain as open and free of distortion as possible to enhance market forces in the steel industry.

The Committee also discussed the role of global value chains in the context of the steel industry and recognised that the discussion about trade and other policies affecting the industry can benefit from an increased understanding of the importance of value chains. Policymakers discussed conditions that allow companies to focus more on quality and upgrading rather than on quantity. Innovation could also help the industry move from a current situation of excess capacity to a more sustainable path in the future.

Moving towards a low-carbon steel industry remains challenging

Improving the environmental performance of the steel sector and moving towards low-carbon steelmaking remain key long-term challenges. The Committee discussed different policy and market-driven means to facilitate the development of more environmentally friendly steel products and steelmaking processes.

Related Documents

- OECD work on steel