84th Session of the OECD Steel Committee - Chair's Statement

Steel markets recover slowly, amidst persisting structural imbalances

Statement from Lieven Top, Chair of the OECD Steel Committee

84th Session of the Steel Committee , 5-6 March 2018

The Committee:

- welcomed the moderate recovery in the global steel market, but remains deeply concerned about persisting excess capacity and called for a further and accelerated reduction of excess capacity that genuinely brings balance back to the market;
- discussed developments in steel trade and trade policy measures, including recent announcements by Members of the Steel Committee, which are of strong concern to other members;
- welcomed the Berlin Ministerial report of the Global Forum on Steel Excess Capacity (GFSEC), and stressed the importance of a swift implementation of its policy recommendations;
- discussed guidelines on market-distorting state support and called for its swift and tangible removal.

Steel markets recover slowly, amidst persisting structural imbalances

The global economy has continued its recovery in 2017, supported by monetary and fiscal stimulus as well as a broadening of the growth momentum, and is projected to stay on this path. According to the latest OECD Economic Outlook (November 2017), the global GDP growth rate is expected to remain around its 2017 level of 3.6%, with growth projected at 3.7% in 2018 and 3.6% in 2019. Although downside risks such as political uncertainties have moderated, risks to the longer-term growth momentum remain and include high household and corporate indebtedness as well as financial risks.

Steel market conditions have also shown modest improvement overall, as crude steel production continued its recovery in most regions, resulting in a global growth rate of 5.3% in 2017 as compared to 2016. Nevertheless, steel production growth remained unbalanced, with important differences in growth rates persisting across regions. The World Steel Association’s October 2017 Short Range Outlook suggested that demand for finished steel products continued to recover, with an increase of 2,8% forecast for 2017 compared to 2016. Steel prices continued to increase in 2017, despite a small correction during the first half of the year, standing now at levels last seen around 2013.

It is, however, uncertain whether this momentum will continue, as financial vulnerabilities of steel firms and the presence of distorting government support measures remain reasons for concern. A sustained and resilient recovery remains unlikely as megatrends associated with lower steel intensity (e.g. ageing population, digitalisation, climate change and circular economy) are likely to weigh down on long-term global steel demand. While the structural imbalances remain, the recently improved conditions in some steel markets could therefore provide temporary relief and a unique window of opportunity to address policy-induced distortions to steel markets that result in excess capacity and trade frictions. The Committee emphasised that this opportunity must be seized through swift and resolute action, and avoidance of major trade disruptions.

Global steelmaking capacity declined slowly, and accelerated efforts are needed to tackle persisting excess capacity

Global steelmaking capacity has decreased slightly for the second consecutive year in 2017 according to the latest information available to the OECD Steel Committee Secretariat. The OECD has revised down its 2016 and 2017 figures for world steelmaking capacity to 2 290 and 2 268 mmt, respectively, to incorporate closures and investments that were not taken into account previously. The decline in global steelmaking capacity in 2017 (-1.0%) follows a deceleration in capacity growth since 2013 and results from capacity reductions and slower capacity growth in both OECD and non-OECD economies.

The reduction in global crude steelmaking capacity which mainly happened in absolute figures in Asia while proportionally significant in other constitutions has contributed to a slight narrowing of the gap between global capacity and production. However this modest adjustment still falls short of alleviating global excess capacity—demand would take more than 30 years to absorb the current level of excess capacity. New investment projects continue to take place around the world and global steelmaking capacity could increase by 2.0% between 2018 and 2020 in the absence of any further closures. Global excess capacity is expected to continue to be a major challenge for the global steel industry—calling for urgent, accelerated actions to reduce it. Economies at the heart of the increase in capacity have an important role in this regard, and those increasing capacity should do so strictly in line with demand to avoid an exacerbation of the problem.

The OECD Steel Committee called for a swift removal of market-distorting policies that result in capacity additions or in sustaining or delaying the closure of inefficient steel production units. The Committee stressed the importance of policies that facilitate restructuring in the steel sector, including policies that help steel workers affected by structural adjustments.

The OECD Steel Committee welcomed the substantive report of the Global Forum on Steel Excess Capacity (GFSEC) called by the G20 Leaders at the Hamburg summit and approved at the GFSEC Ministerial meeting in Berlin on 30 November 2017. The Committee stressed the importance to prioritize the swift implementation of the report's recommendations in 2018 and particularly to focus in the first six months of 2018 on market-distorting state support that contributes to excess capacity, and tangible and swift policy action for removal of such support measures. The Committee takes note that Global Forum will report on the process and concrete results in addressing excess capacity to G20 and to interested OECD countries being member of the Global Forum.

The Committee was also informed about the progress of the Global Iron & Steel Technology Roadmap conducted by the International Energy Agency and welcomed this and other efforts that can help the transitioning to low carbon steel and improved environmental performance in the steel sector.

Global steel trade continues to decline amidst robust growth in production

Steel trade continued to decline in 2017, with steel exports falling by 6.9% in the first eight months of the year compared to the same period in 2016. This contraction has been largely due to improved domestic demand conditions for steel in key steel-exporting economies. Despite the fall in global steel exports, some key economies have recorded a significant increase in exports during the period. Similarly, global steel imports also declined in 2017, representing the first contraction in steel imports since 2012. Nevertheless, during the first eight months of 2017 imports continued to increase in year-on-year terms and captured the gains in demand in some of the largest steel-producing economies.

The contraction of global steel trade, both in terms of exports and imports, observed in 2017 also reflects the impact of tariff and non-tariff measures, which continue to put significant constraints to steel trade. Trade tensions continue to increase including recent announcements by Members of the Steel Committee, which are of strong concern to other members given the potential impact and implications. The Steel Committee agreed to continue monitoring steel trade developments and trade policy measures.

The Committee also discussed market and trade developments in steelmaking raw materials markets and expressed concerns about trade restrictive policies in iron ore, ferrous scrap, coking coal and other steelmaking raw materials markets.

Guidelines on direct and indirect forms of government support could help the steel industry

The Steel Committee advanced work on guidelines regarding market-distorting state support measures that contribute to excess capacity and a database on their different forms.

Concerns about the significant role played by state enterprises in the global steel industry

The Committee further discussed the implications of the presence of state enterprises in the steel market. Although there are fewer state enterprises compared to private enterprises, they represent a large share of world steel production. New evidence from firm level data shows that state enterprises in the steel sector are associated with poorer economic performance, higher debt and longer periods of consecutive losses compared to their private counterparts. State enterprises are also found to contribute significantly to the increase in global steelmaking capacity, although they achieve lower financial results than private enterprises. The Committee expressed concerns about market distortions resulting from the activity of state enterprises and the undue advantages they may receive.