88th Session of the OECD Steel Committee - Chair's Statement

Statement by Mr Ulf Zumkley, Chairman of the OECD Steel Committee

88th session of the Steel Committee, 24-25 and 28-29 September 2020

At its 88th session held virtually on 24-25 and 28-29 September 2020, the OECD Steel Committee held in-depth discussions on the global steel market situation and outlook, challenges facing the global steel industry including market-distorting government interventions, growing excess capacity, and increasing trade tensions, and policy approaches to ensure a level playing field in the sector. Specific topics discussed included the impact of COVID-19 on global and regional steel markets, steel trade policy developments, and steelmaking capacity trends. The Committee also discussed the findings of its work including on state-owned enterprises, mergers and acquisitions, the changing characteristics of steel firms, and market distorting subsidies in the steel sector.

Delegates of the Steel Committee:

- expressed grave concerns about the deterioration of steel market conditions related to the COVID-19 outbreak, causing large demand and production shocks that have impacted all economic sectors including steel. These market conditions have caused significant unemployment for steel workers in OECD Steel Committee countries. Delegates noted with apprehension that, despite the global negative demand shock, production and inventories have significantly increased from year-ago levels in China.
- noted with deep concern increases in steelmaking capacity, which may not reflect market fundamentals, resulting in a capacity-production gap that is expected to reach 700 million metric tonnes in 2020, after narrowing between 2016 and 2019 [The capacity-production gap is an estimate based on annualised data from the first half of the year. It differs, and is lower than, estimates of the capacity-demand gap which use real growth of demand]. Members reiterated the need for further capacity reductions in relevant jurisdictions, including by facilitating the exit of inefficient producers and by supporting workers affected by plant closures.
- stressed that market-distorting government interventions and support measures as well as the resulting excess capacity have contributed to significant distortions in steel trade flows and can hinder exit and structural adjustment. These interventions contribute to trade tensions.
- called for increasing vigilance on cross-border investment activity by state-owned enterprises, highlighting the potential for such investments to be driven by non-market considerations that can further aggravate excess capacity globally.
- stressed the importance of a dynamic steel sector where entry and exit mechanisms work efficiently and are driven by market forces. Policies aimed at facilitating mergers and acquisitions should be designed with a view of facilitating the exit of inefficient production units from the market.

Global growth prospects and the steel market outlook are bleak

The COVID-19 pandemic has led to considerable uncertainty around global economic growth prospects. In its September 2020 Interim Economic Outlook, the OECD forecast world GDP to drop by 4.5% in 2020 before picking up by 5.0% in 2021. The effects of the pandemic have been significant for the steel industry. Global steel consumption growth turned sharply negative in early 2020 due to the initial impact of COVID-19 on downstream sectors, and steel prices have continued on their downward trend. Most major steel-producing economies have experienced significant contractions in steel production this year in response to the market situation. The Steel Committee noted with concern the divergence from this global trend in China, where steel production reached record volumes in the first semester of 2020, and where inventories have reached historically high levels. These developments pose a risk of oversupply in China exacerbating global imbalances resulting from the COVID-19 demand shocks. Besides risks related to the pandemic, the main risk to the outlook, include the impacts of growing global excess capacity, supported by government subsidies and investment policies that are putting the long-run viability of producers at risk and should therefore be addressed urgently. In this context, the Steel Committee recognized that the work of Global Forum on Steel Excess Capacity (GFSEC) has become more important than ever.

Global steelmaking capacity trends are a cause for concern

The latest available data from the OECD show that global steelmaking capacity could increase to 2,455.8 million metric tonnes (mmt) in 2020. While the gap between global capacity and production narrowed between 2016 and 2019, it is very likely to widen to as much as 700 mmt this year due to capacity increases and production decreases as a result of COVID-19. The Steel Committee also discussed a number of new investment projects that are coming on stream in certain jurisdictions - in particular in the Middle East (16 mmt coming on stream this year) and Asia (16.4 mmt coming on stream this year) - that could exacerbate global excess capacity and contribute a global increase of 41.8 mmt in 2020, noting that many of these investments are funded by overseas investment and some may not be market driven. In particular, the Committee noted concerns that a number of planned capacity increases are premised on expectations of an increase in future demand, including demand in export markets. This creates a significant risk of further exacerbating the excess capacity situation should expected demand not materialize. The Committee underscored that the need to engage with all relevant stakeholders to foster better understanding of these developments and their risks is as paramount as ever.

Discussions lead to better understanding of trade policy developments

The Committee noted that the COVID-19 pandemic and its negative impacts on steel demand have led to a decline in steel trade, though major differences exist across major economies. The Committee also discussed recent developments in trade policy measures affecting steel trade, with members sharing information about their own trade measures and hearing the concerns of other members whose steel producers are being affected by these developments. The need to avoid protectionism was reiterated, including all unfair trade practices and recognising the role of legitimate trade defence instruments in that regard.

In this context, the Committee underscored that it would continue to work together with all its members to enhance transparency and ease trade tensions.

State-owned enterprises, mergers and acquisitions, and the need for consolidation in the steel industry

State-owned enterprises have become increasingly active as cross-border investors, though most of the cross-border investments originate from one economy, China. Steel Committee analysis demonstrates that state-owned enterprises prefer building new capacity over acquiring existing capacity particularly in jurisdictions characterised by volatile demand growth potentially resulting in capacity additions in regions unable to absorb the increased steel production and worsening excess capacity. The Committee also noted that analysis suggests a link between the implementation of trade remedy measures and subsequent cross border investments of state-owned enterprises, which face fewer constraints to engage in this behaviour. The Committee also discussed analysis showing that mergers and acquisitions (M&As) are associated with greater consolidation in the steel industry, at least to some degree. The analysis shows that steelmaking firms involved in M&A activities as acquirers tend to have larger production, more plants, and a greater reliance on basic oxygen furnaces compared to firms not active in M&A activity. The Committee concluded that M&A policies aimed at reducing excess capacity should be designed in a way to explicitly incentivise the elimination of inefficient plants in order to avoid further accumulation of unproductive capacity.

Business dynamism in the steel sector and the impact of subsidies

Analysis using a newly built OECD database using specialised data at the firm and plant level indicate that business dynamism is relatively low among steel firms, suggesting that market exit mechanisms are not working efficiently and the possibility of government support measures sustaining persistently loss-making enterprises. In discussing policies to promote structural adjustment in the steel sector and mitigate excess capacity, the Steel Committee stressed the importance of allowing market entry and exit mechanisms to function, and incentives to upgrade technology towards more flexible, more efficient and cleaner production processes. The Committee also discussed the state of its work on building a database of subsidies in the steel sector, noting the importance of this work and the need for the Committee to consider next steps.

Related Documents

OECD work on steel

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