GLOBAL STEEL EXCESS CAPACITY: SOME KEY MESSAGES

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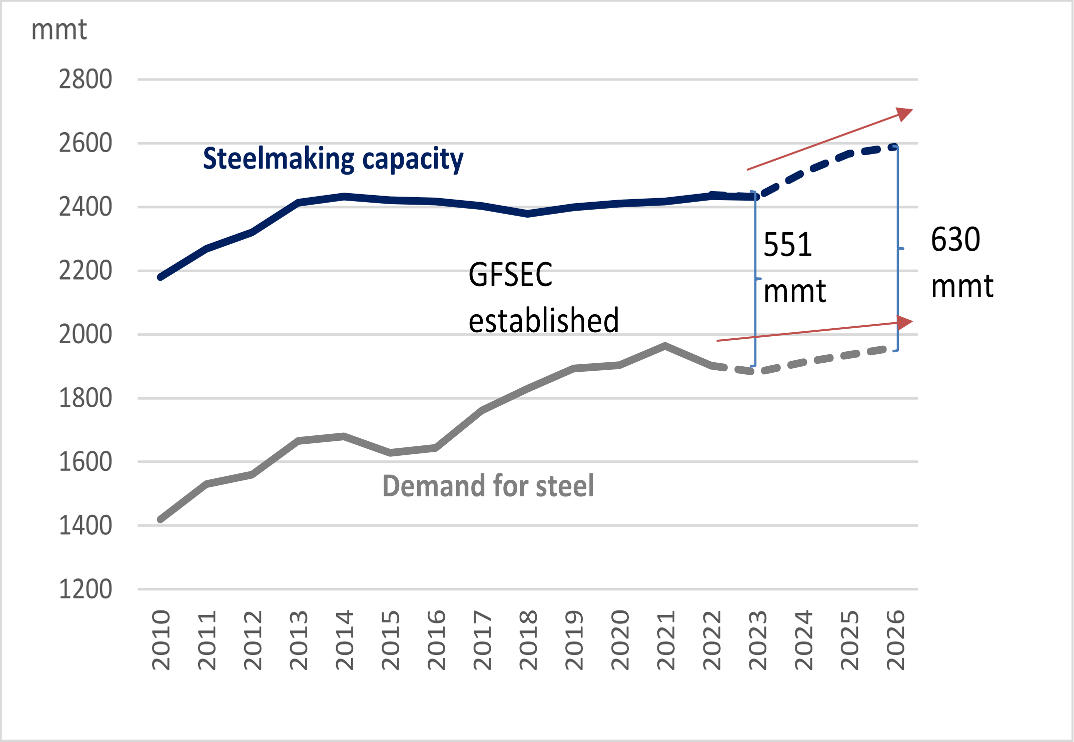
BETTER POLICIES FOR BETTER LIVES

THE EXCESS CAPACITY SITUATION IS GETTING WORSE AND IS NOT SUSTAINABLE

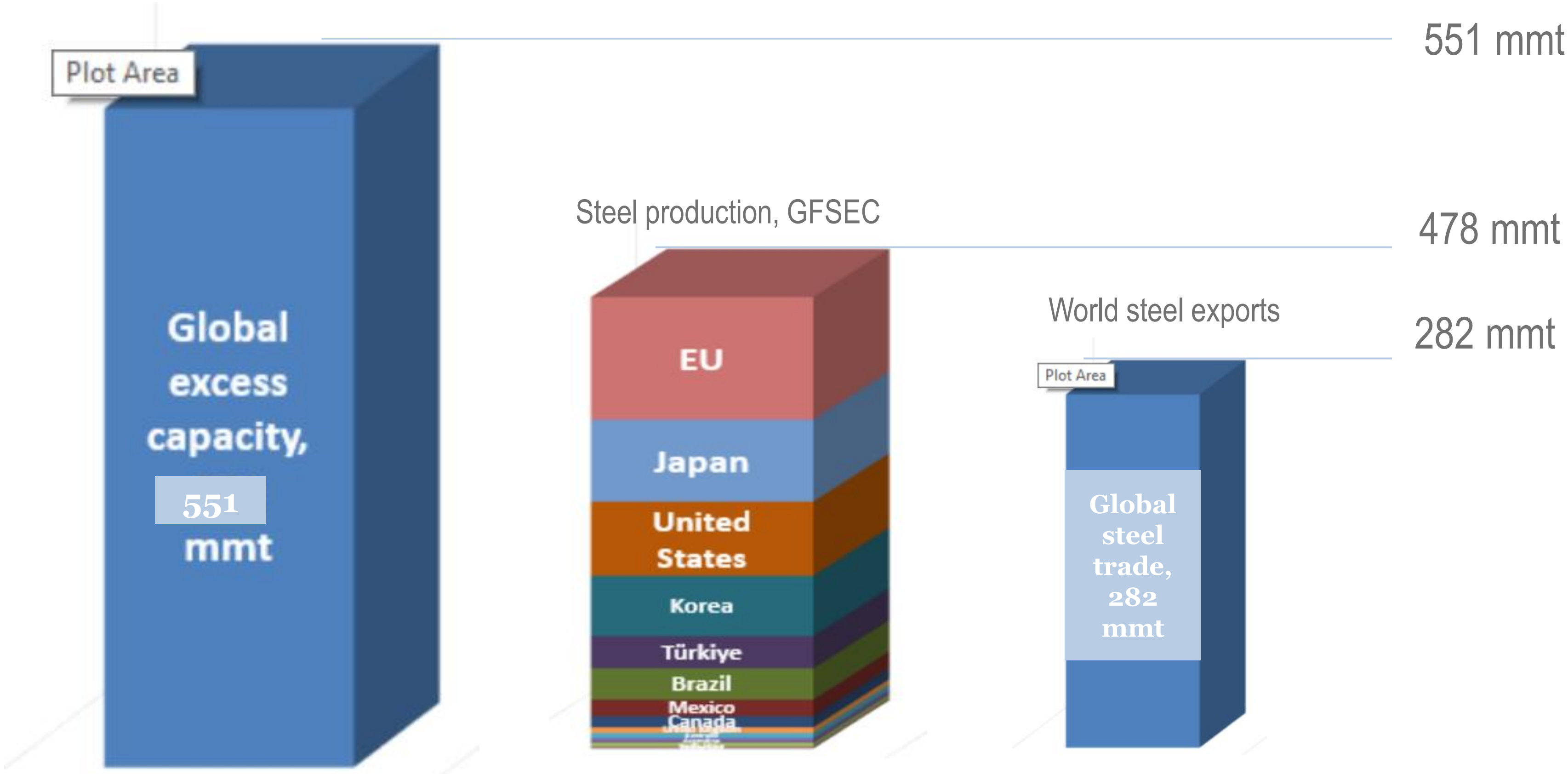
The global excess capacity is growing unsustainably…

- World capacity at 2,432 mmt in 2023
- Potential increase in capacity by 157 mmt in 2024-26 to new record highs
- The gap between capacity and demand was 551 mmt in 2023 and **rising**
- Some excess capacity cyclical but **structural** excess capacity is the most problematic

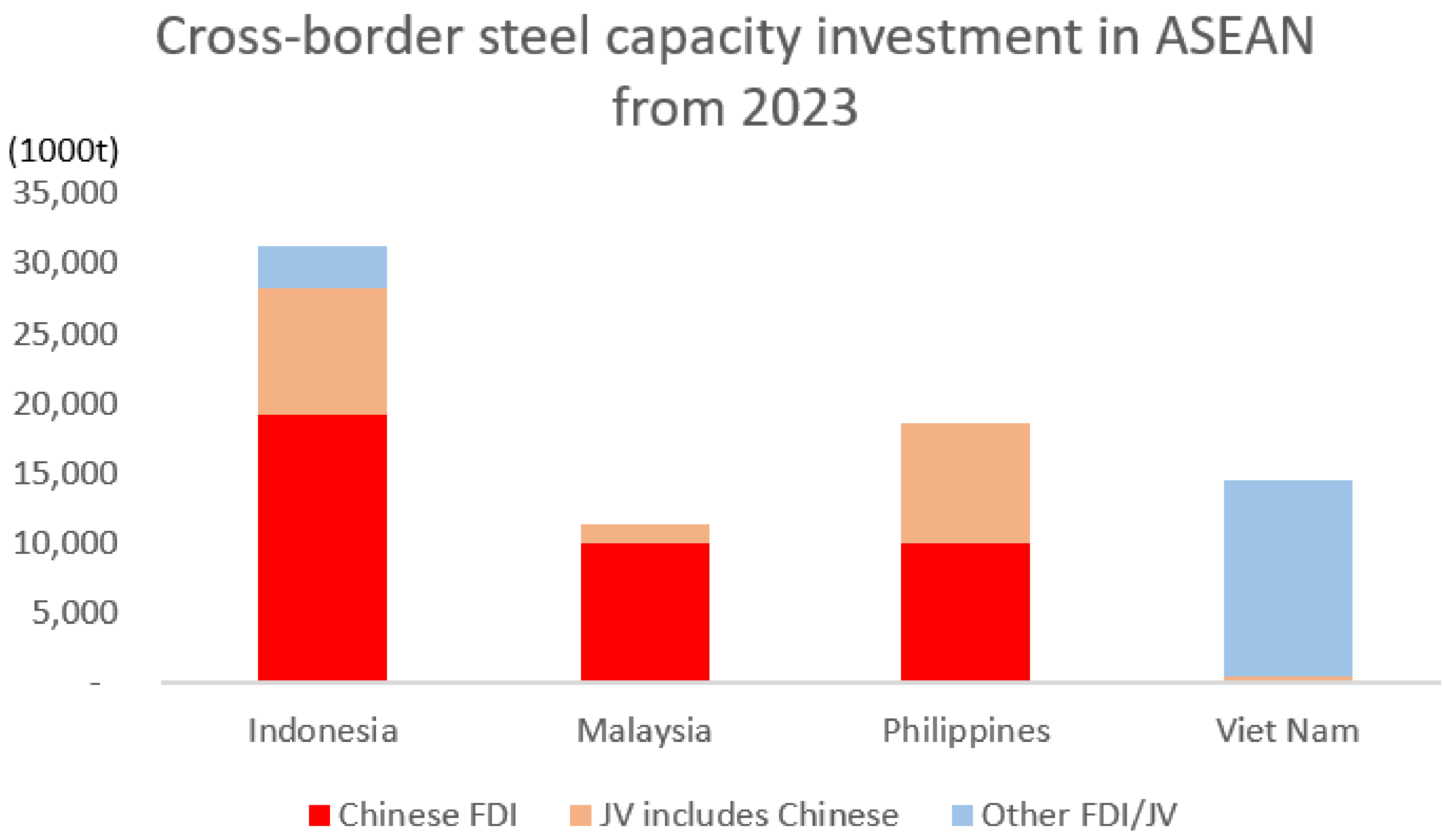


Sources: Demand from worldsteel, capacity from the OECD. Demand scenario based on worldsteel's April 2024 SRO and CRU for later years; Capacity scenario based on steel capacity investment data by the OECD.

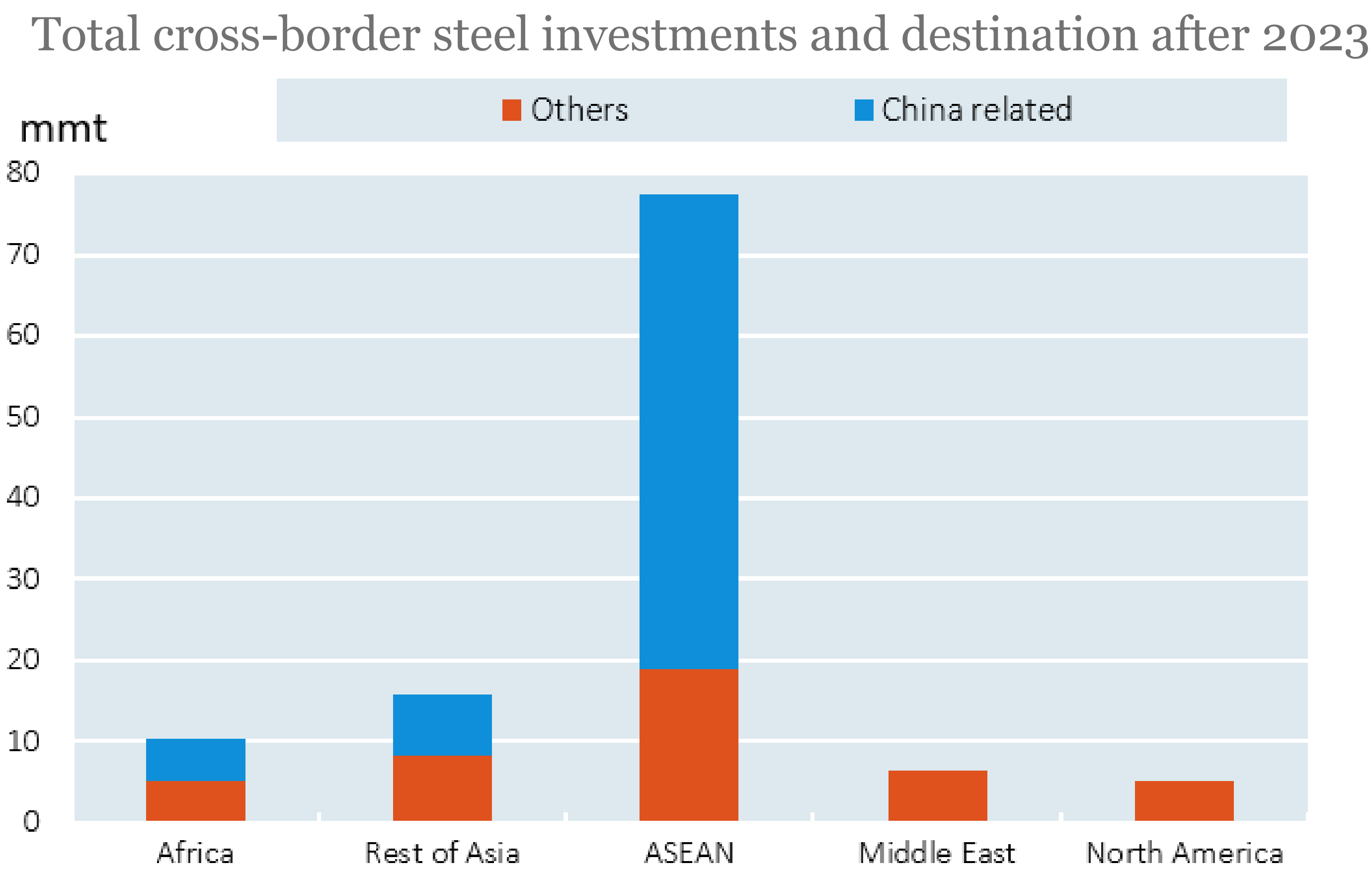
Global excess capacity exceeds total production of countries and global steel exports



…capacity expansion driven by Chinese investments in ASEAN…

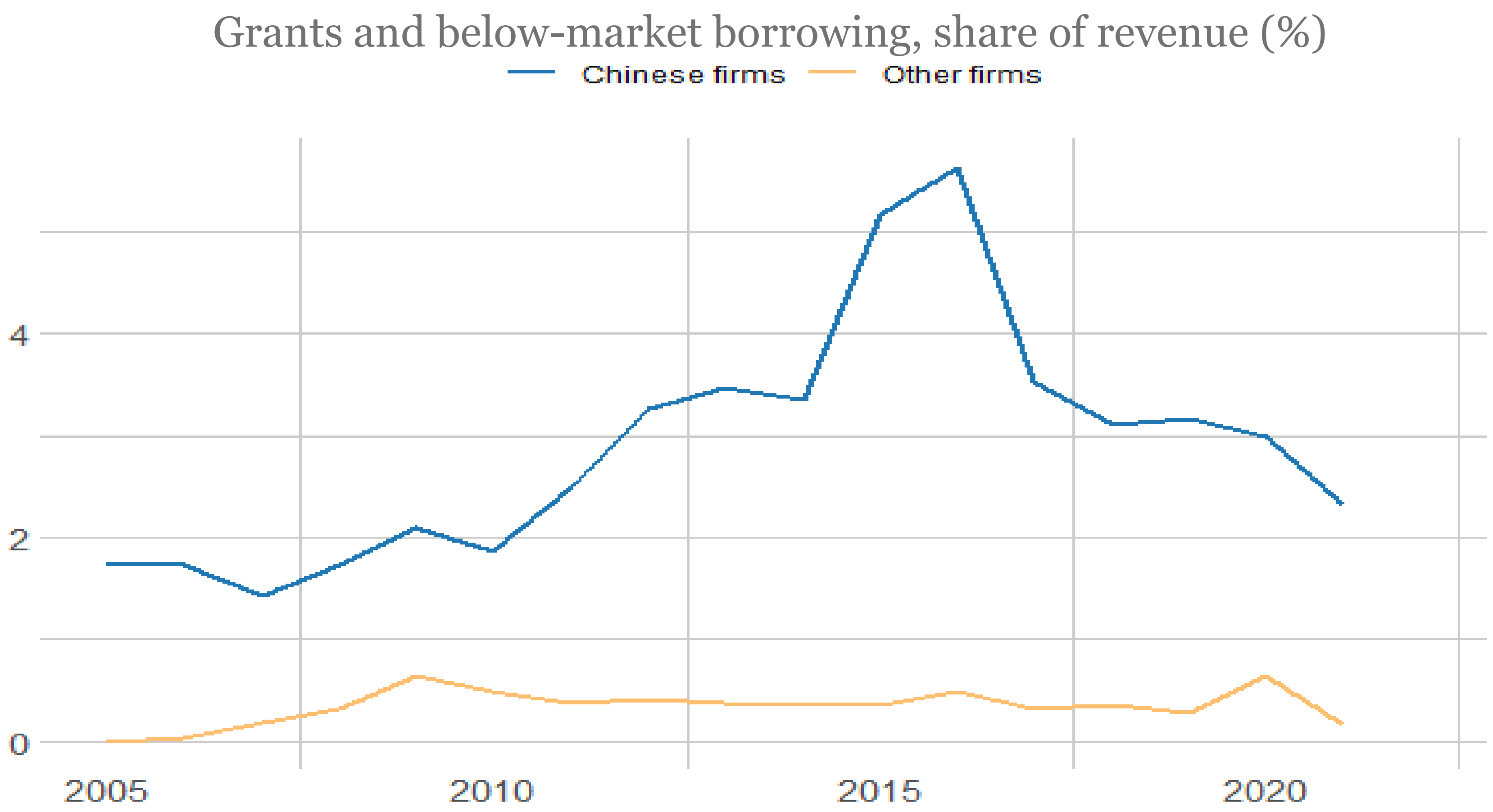


ASEAN receives the largest share of Chinese investment (82% of China's cross-border investment)

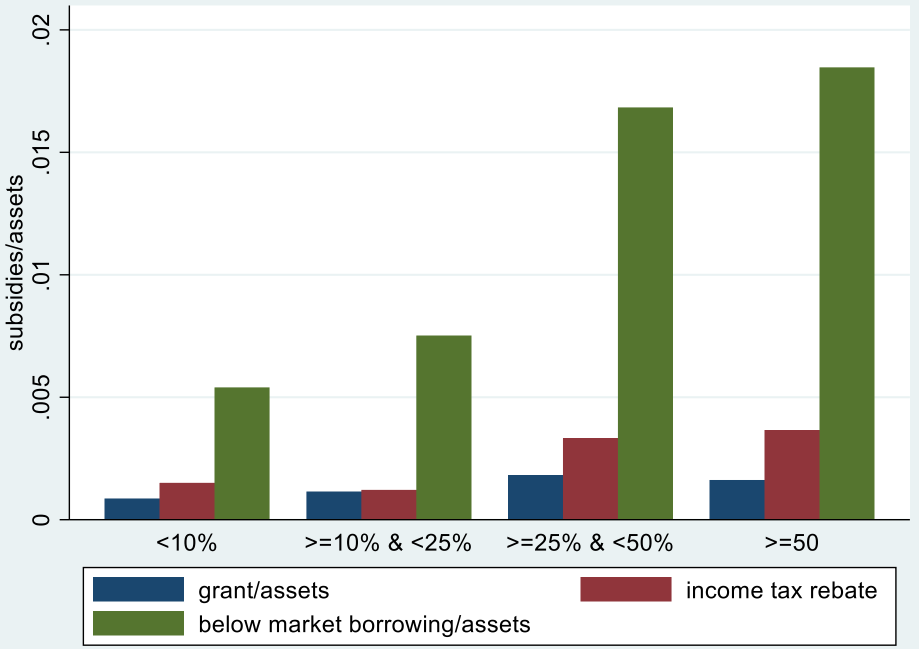


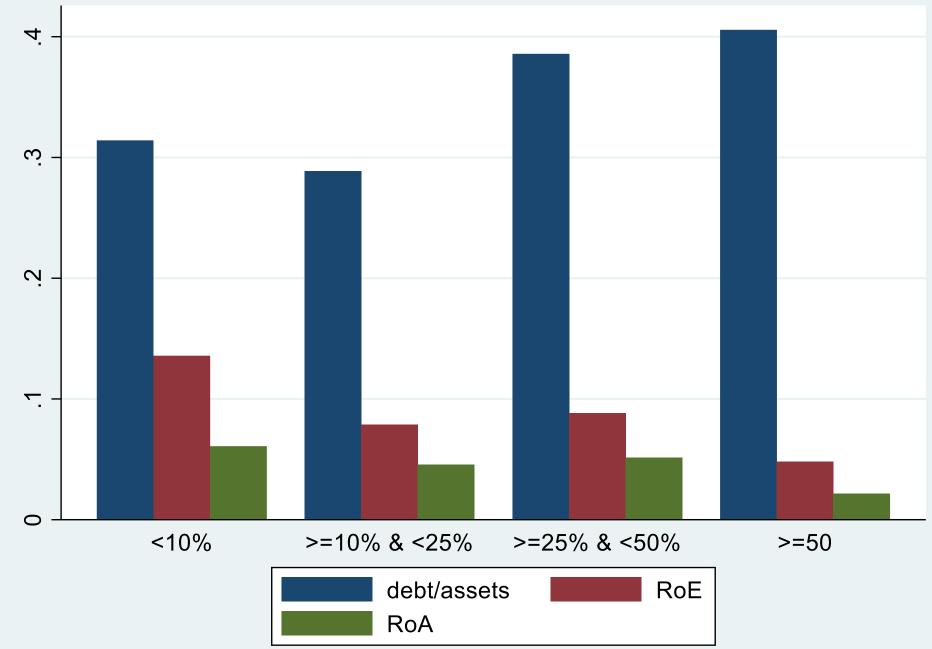
THE ROOT CAUSES OF GLOBAL EXCESS CAPACITY HAVE NOT BEEN RESOLVED YET

A bird's eye view of steel subsidies: China versus other countries



The Elephant in the Room: steel SOEs get more subsidies per asset than POEs for higher indebtedness and lower profitability

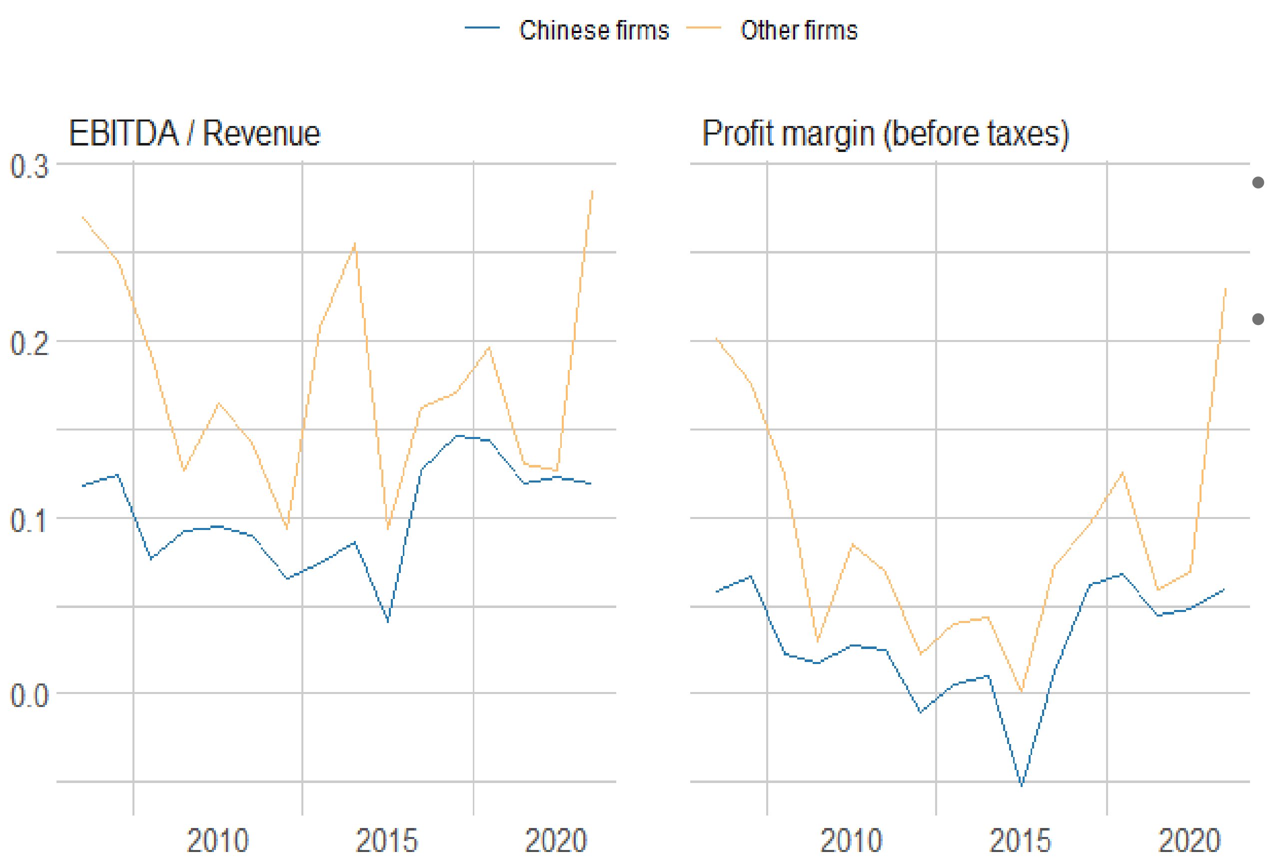




Split-off by share of government ownership of:

1) subsidies per asset (left side)
2) debt per asset, return on assets (RoA) and return on equity (RoE) (right side).

…impacts on profitability and capacity



- Steel Committee research findings:
- USD 1 million of grants in non-OECD economies leads to a capacity increase of 7,000-11,000 metric tonnes. No impact in OECD countries.

IMPACTS OF CHINESE SUBSIDIES ON STEEL INDUSTRIES OF OTHER COUNTRIES – NOT SUSTAINABLE

First time we have robust quantitative results on how subsidies hurt other countries’ steel industries

- Lower aggregate domestic market shares: imports of steel products from sources of excess capacity increase relative to the domestic steel demand.
- Decrease in domestic utilisation rates
- Reduced revenue and profits: firms total revenue and EBITDA over sales ratio are negatively affected. Confirmed by time-series approach: steel stock prices are below predicted values in most cases pointing to a decrease in profitability.
- Inconclusive impacts over other countries’ steel exports

Download at **https://steelforum.org/gfsec-impacts-of-global-excess-capacity.pdf**

Empirical work: different approaches for robustness

Data collected to estimate the impacts of excess capacity :

- Country level panel data (72 countries over 2002-2022)

  Combines detailed data on international trade flows, steel production, apparent steel use, market prices and crude steel capacity.

- Firms panel data (46 steelmaking firms from 17 countries over 2005-2022)

  OECD's MAGIC database with financial data of steel firms, number of employees, credit ratings, government grants and below-market borrowings, and government participation in the firm's ownership, among others.

- Time-series data (from 14 countries over September 1998 to September 2023)

  Daily records of stock returns for a sample of steel industry firms

Results (panel approach): Negative impacts on steel market selected variables

Impacts on non-Chinese firms

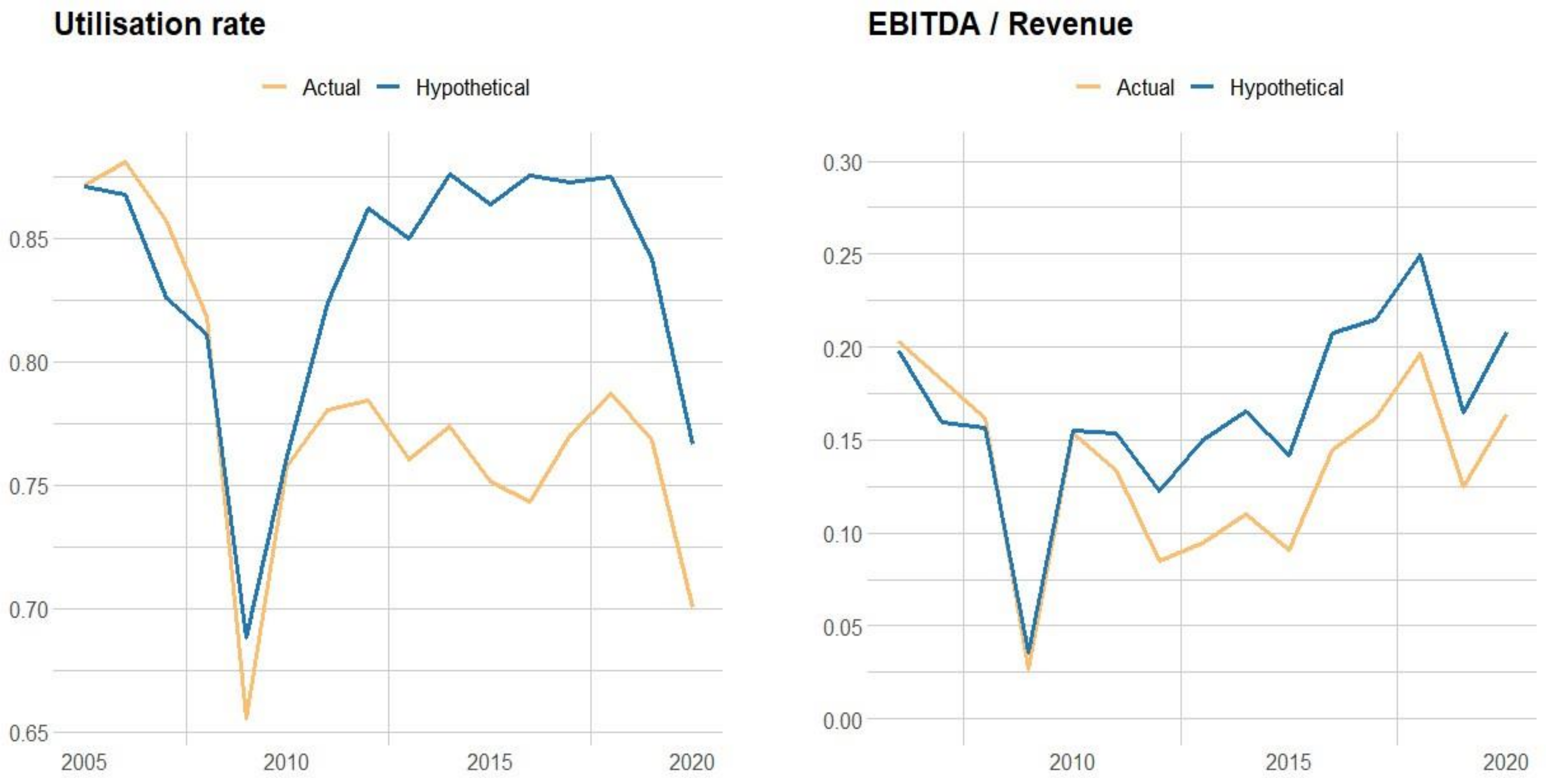
Explanatory variables

		Aggregated panel (72 countries)			Firm-level panel (46 firms)		
		Chinese imports / Total domestic demand	Exports / Total production	Utilisation rate	Total revenue	EBITDA / Total revenue	Export revenue / Total revenue
Structural excess capacity	Cash grants ratio	+	Nil	-	-	-	Nil
	Below-market borrowings ratio	+	Nil	-	-	-	Nil
Cyclical excess capacity	Chinese steel demand	-	Nil	+			
	Cash grants ratio x Chinese steel demand	-	Nil	+			
	Below-market borrowings ratio x Chinese steel demand	-	Nil	+			

Note: The cells indicate the sign of the coefficient corresponding to the impact of the variables in rows over the variables shown in columns. The colour scale reflects the degree of significance of the results obtained in the different specifications. No shading indicates that the parameters estimated were insignificant, thus are assumed not to have any effect on the dependent variable (denoted “Nil”).

A counterfactual exercise shows steel industries outside of China would have been much healthier if China had not subsidised its steel industry

Non-Chinese firms: actual and hypothetical rates of capacity utilisation and profitability assuming Chinese subsidisation had remained constant at 2005 levels



Recent data highlight the negative effects of global excess capacity

Steel prices — **Down more than 15%** over past year in many countries

Profitability — **Down by 50%** in 2022 for the average steel firm

Steel import surges — **Chinese steel exports surge 40% in 2023.** Brazil’s steel imports up 49% in 2023 and 10% so far in 2024

Market share and workers — GFSEC global production share **has fallen to 25%** and **workers laid off**

Investment for a better future — **Hinders product and process innovations**

Wasteful energy and higher emissions — **Much lower CO2 emissions** for global steel industry if excess capacity reduced

TRADE POLICY REACTIONS INCREASING…BUT ALSO LESS EFFECTIVE BECAUSE OF TRADE CIRCUMVENTION AND INDIRECT STEEL EXPORTS

Chinese steel exports are skyrocketing

Chinese export main destinations

Destinations	Volumes (mmt)	Yearly growth
ASEAN	26.4	39.8%
KOR	8.6	33.7%
EU	4.7	8.9%
TUR	4.1	64.0%
ARE	3.7	84.6%

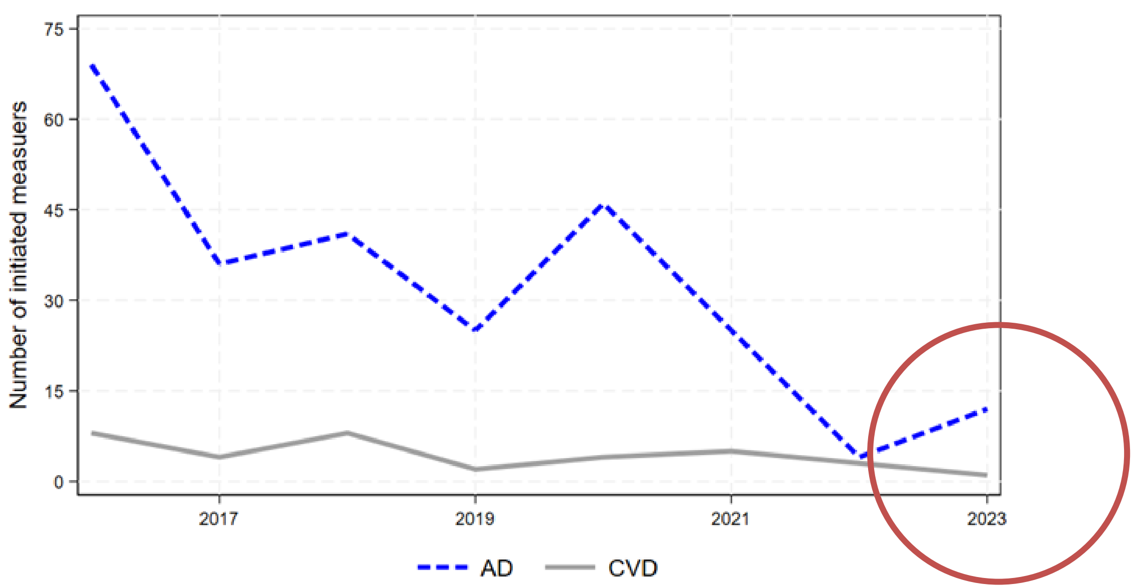
Chinese exports by product

- All major CHN export partners exhibited a surge in inbound shipments.
- ASEAN countries as a group remain the main importer of CHN steel products.
- Record in the exports of flat products → lower needs of flat for the domestic infrastructure industry rather than diversification.

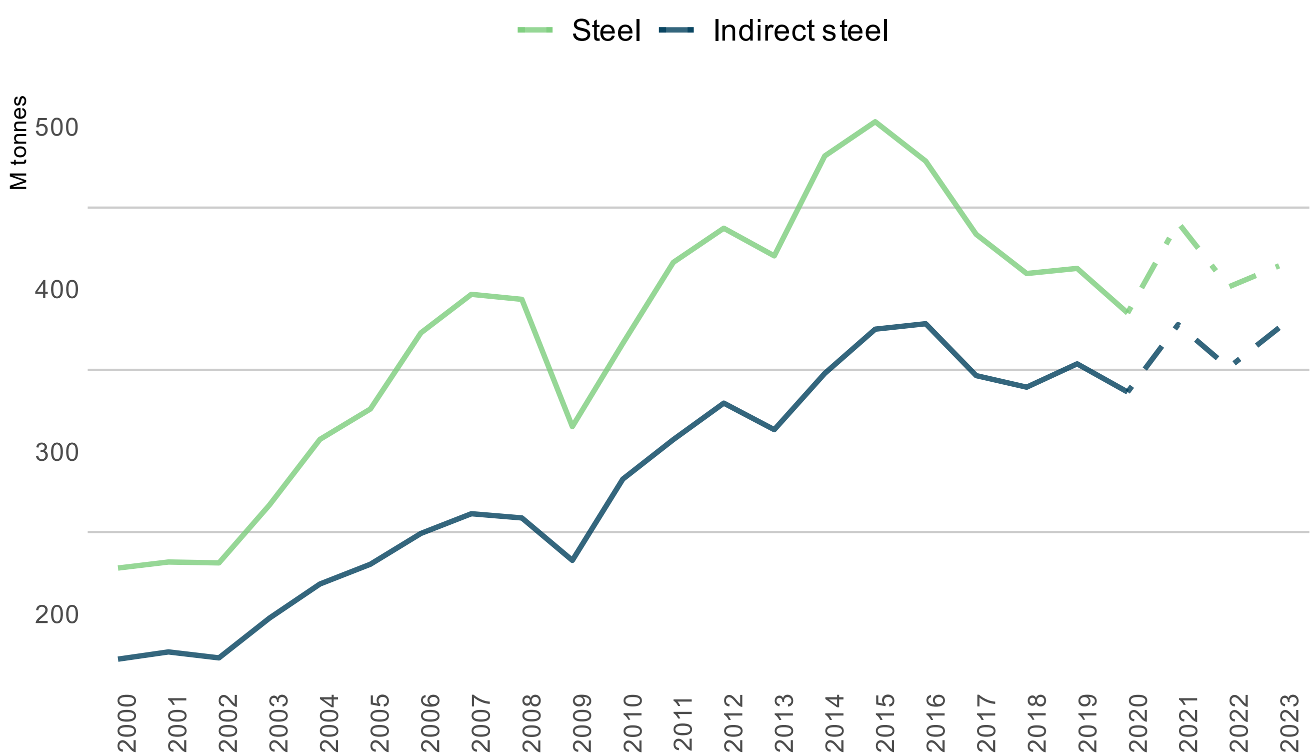
Steel trade policy reactions on the rise…

- **AD/CVD**: their use reached peak in 2016, now increasing in the application of AD investigations and safeguards
- Steel excess capacity on the rise again, coupled with a boom in Chinese exports → resurgence in the use of trade defense instruments
- Since 2016, 22 cases of **anti-circumvention** of steel. Recently Brazil and Thailand have launched cases.
- **Non-tariff measures** are also increasing
- **Shift towards regionalized trade patterns**, also to de-risk supply chains due to geopolitical tensions

Anti-dumping investigations increasing

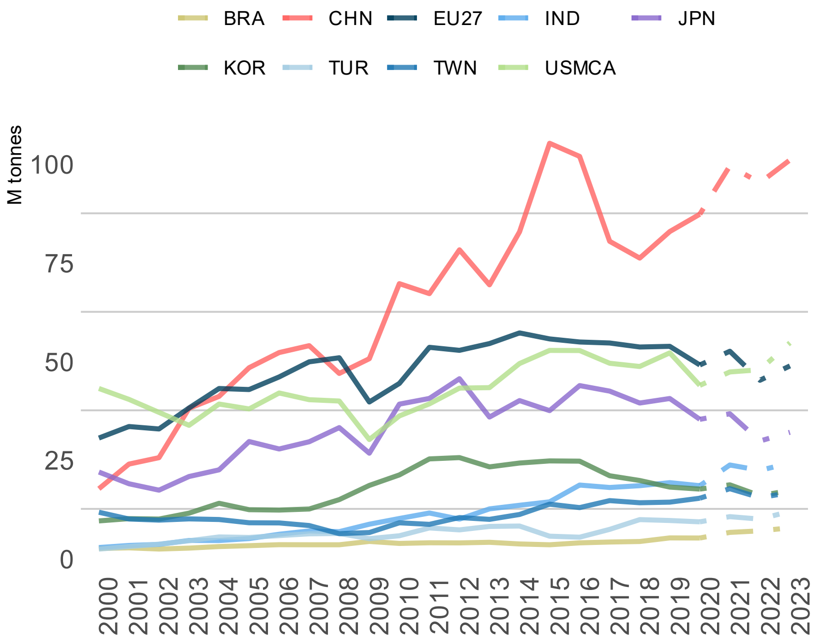


Indirect steel exports almost as high as regular steel exports and returning to peak levels in 2023

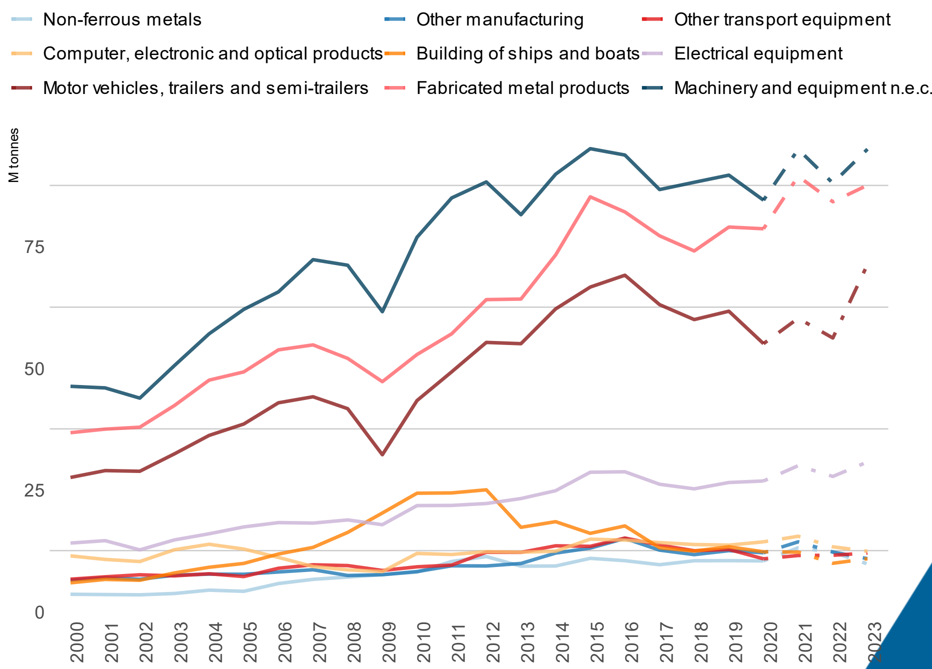


With marked differences across countries and industries

Chinese indirect steel exports on the rise (reaching 101 Mt in 2023)
They remain stable or decrease in other countries

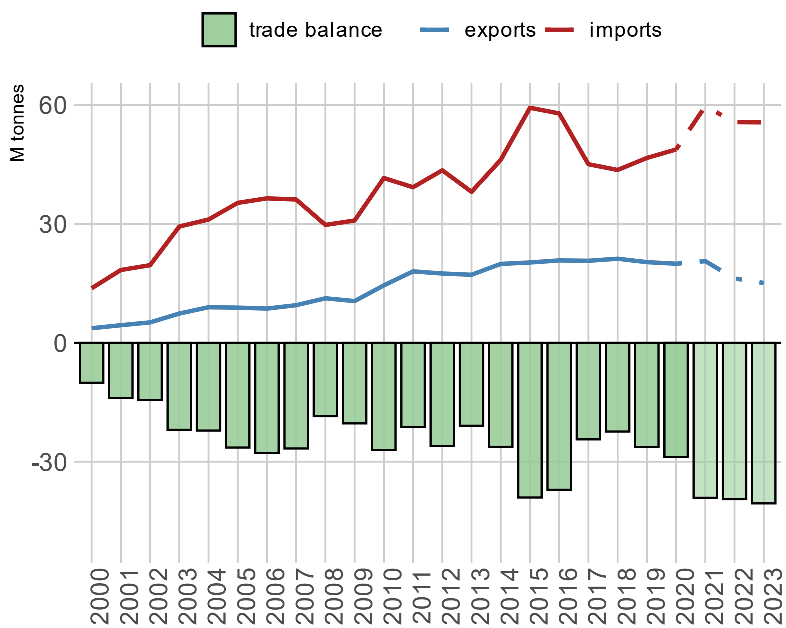


World level: strong surge in steel exports contained in cars.
Machinery and metals recovering 2021 values.

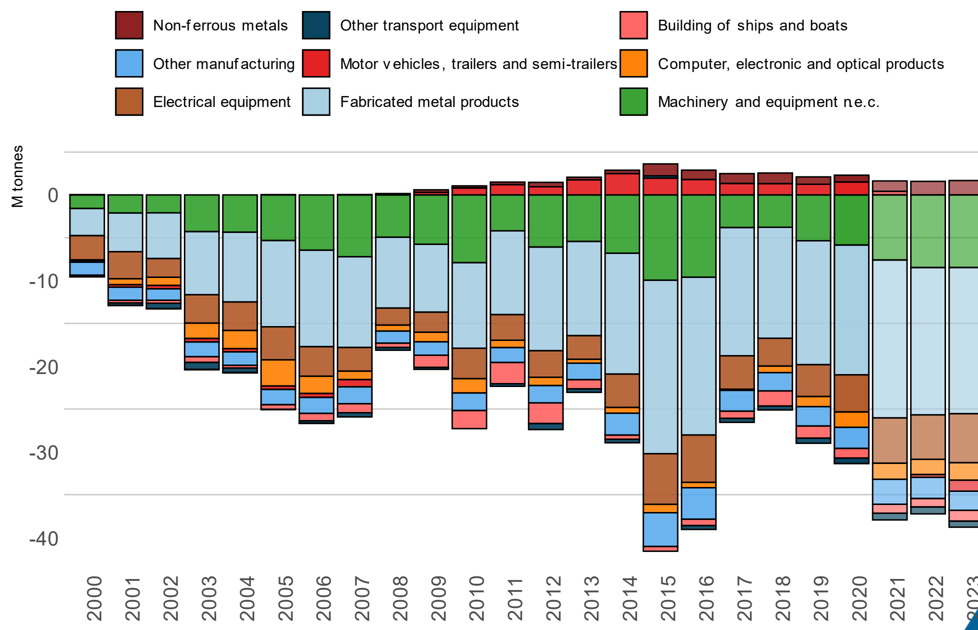


GFSEC-China indirect steel trade balance

The trade deficit widens in 2023 to **-40.5 Mt.** Explained by lower GFSEC exports. Imports stable



Higher trade deficit in metal products, machinery, and electrical equipment since 2020
Balanced trade in cars (surplus until 2020)



CONCLUSION: EXCESS CAPACITY RISKS THE DECLINE OF OUR STEEL AND MANUFACTURING INDUSTRIES AND REQUIRES STRONG POLICY ACTION

The GFSEC is committed to take actions

- A industry stakeholder event in March 2024 focussed on "**New Approaches to Address Global Excess Capacity**" with industry stakeholders
  - Listening to industry concerns about the global excess capacity
  - Thinking out of the box about solutions
  - Collecting ideas on how to deal with the global excess capacity
- **Deepening GFSEC substantive work** in 2024 on the impacts and urgency of the excess capacity situation
- Looking at **short-term and longer-term actions** to address global excess capacity
- Ministerial Meeting on 8 October to agree on collective actions to address the excess capacity problem

Conclusions

- Steel excess capacity needs to be addressed for a healthy and sustainable steel industry
- Excess capacity is not only harming the steel industry but may spread downstream and harm manufacturing more broadly in the impacted countries
- The OECD is committed to helping countries deal with this problem – a Ministerial Meeting in October will agree on actions to take

Thank you!

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