



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

OECD Washington Center

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## The OECD High-Level Steel Initiative

The OECD High-Level Steel Initiative<sup>1</sup>, which was launched in Summer 2001, aims at:

- i) promoting the elimination of inefficient excess capacity and monitoring the progress that is being made in each country in facilitating structural change in the industry;
- ii) identifying ways to strengthen multilateral disciplines on government measures and industry practices that distort markets and, ultimately, contribute to global overcapacity.

All key non-OECD member countries that produce steel are involved in this exercise including Russia, Ukraine, Brazil, India, to name a few. China, the world's largest steel producer re-joined the exercise in June this year, and has been actively engaged in the negotiations since that time. This is an important achievement. Without China the value of the initiative would be rather limited, and the OECD has to thank the US administration for its numerous efforts directed to involving China and other non-OECD members in this initiative. It is crucial for a successful conclusion of the initiative that such bilateral persuasion continues.

### I. Elimination of inefficient excess capacity

On the capacity front, governments established a mechanism to share information twice a year about capacity and related industry restructuring, and to evaluate issues in each participating area through a rigorous peer review process. The first review was held in May of this year, with a second taking place several weeks ago. Most participating economies have taken part in this review, the important exception being China, which has thus far focused its involvement on the disciplines work. The review has helped to boost transparency, revealing that 134 to 140 million tonnes of capacity will be closed by 2005. This will help to bring supply and demand into better balance but, absent a healthy increase in consumption, substantial excess capacity will continue to overhang the market.

### II. Strengthening Multilateral Disciplines on Government Measures and Related Industry Practices that Distort Markets

The disciplines on subsidies established by the WTO Agreement on Subsidies and Countervailing Measures are essentially designed to provide Parties with mechanisms for remedying the effects of injurious subsidies on their industries. Outright prohibitions are currently limited to export subsidies and subsidies that promote the use of domestic goods over imports. These narrowly defined prohibitions are failing in limiting the many types of subsidies and related government supports that have benefited the steel industry. Governments have realised this for decades, but have not taken action to address the situation. There have, however, been attempts, first in the late 1970's when "soft" disciplines were agreed to in the OECD at the time the OECD Steel Committee was established, then during the late 1980s and early 1990s, when efforts

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<sup>1</sup> High-level stands for the involvement of vice-ministers or directors-general in this process.

to negotiate a comprehensive multilateral steel agreement were made. And now we are trying for a third time. As in the past, success won't be easy.

The process has evolved as follows. In February 2002 the High-Level Group established to tackle steel issues took an ambitious step forward when it set up a Disciplines Study Group with a mandate in four areas:

- *to explore the scope for a political commitment by participants to limit voluntarily or, where possible, eliminate market-distorting government measures related to the steel industry, except for the purpose of facilitating closures;*
- *to examine which of the existing multilateral disciplines do not appear to be achieving the desired results in the case of steel and why;*
- *to establish an inventory of measures that distort steel markets;*

and, in light of this,

- *to develop options for the strengthening of disciplines on government interventions and other market distortions in steel, feeding the results, as appropriate, into wider-ranging discussions at the WTO.*

While the work covers a broad range of issues, two emerged as top priorities - (i) subsidies and related government supports and (ii) trade remedies. The trade remedies area is a highly controversial and sensitive one, with some parties arguing that issues should be addressed in the High-Level Group's work, while others have argued that it should be addressed more generically, in the WTO. The work on subsidies is less contentious. In fact, there appears to be general support for prohibiting most types of subsidies to the steel industry.

At the meeting of the High-Level Group in December 2002, a breakthrough was achieved, with the launch of negotiations for an agreement on the reduction or elimination of market-distorting subsidies in steel.

Since that time, negotiations have proceeded at a rapid pace, with negotiating meetings held this year in February, April, May, June, July, September and October. The atmosphere has been positive and constructive, and, importantly, has benefited greatly from the active support of steel firms worldwide, including those in the NAFTA area.

There appears to be growing consensus on many issues, although some differences naturally remain to be bridged with respect to single articles of the agreement.

One major aspect of the steel subsidy agreement, namely its relationship with WTO agreements, is of particular relevance: Should the agreement be a self-standing agreement or should it be fed into the WTO framework? Both avenues could be envisaged:

- If the agreement is to become a part of the WTO framework two alternatives for its conclusion are possible
  - i) the final rules are completed and adopted within the WTO framework, with the OECD serving only as a forum for preparatory work; or
  - ii) these rules are completed and adopted as a formal instrument within the OECD process and the resulting instrument is then integrated into the WTO framework.
- The new Steel Subsidy Agreement could be concluded and applied as a freestanding multilateral agreement with no link to the WTO. The Agreement would have its life and produce its effects like any other multilateral agreement. The OECD could continue to provide secretarial services for its functioning and could host its administering body.

It appears that, at this stage of the negotiations, while some participants have a preference for integrating the Steel Subsidy Agreement into the WTO framework, others would like to explore a stand-alone agreement more fully. This is an issue that will probably receive closer attention when the structure of the agreement, particularly in the area of enforcement mechanisms, becomes clearer.

With respect to the substantive provisions of the Draft Agreement, I would like to highlight the following main points of the actual negotiations:

- Scope: First, there is general consensus that the agreement should provide a blanket prohibition on subsidies to the steel industry, except for several narrowly defined exceptions. And there is agreement on the basic products that should be covered, although there are differences on just how far "downstream" the agreement might reach.
- Exceptions from the prohibition: There is broad consensus on the issue of subsidies to assist with the permanent closure of steel facilities. Views differ, however, concerning exceptions on aid for R&D and environment, and there is very little support for allowing other exceptions such as subsidies for small and medium-sized enterprises.
- Special and differential treatment: This is a very critical issue. While many developing economies have highly competitive steel industries, it seems clear that preferential treatment of some sort will be required to maintain their support for an agreement. A number of promising approaches are being explored and will be worked on intensively in upcoming meetings. How transition economies might benefit from special provisions is also on the table.
- Notification and surveillance of permitted subsidies: There appears to be strong support for a rigorous notification and monitoring regime. This could include mandatory or voluntary notification of permitted subsidies *prior* to their being granted. While advantageous, there are concerns, however, over the practicality and technical feasibility of such a provision.
- Enforcement (Remedies, sanctions, dispute settlement, and free-riders): This is an area to which attention is now turning. Initial discussion will take place in December, following which draft legal text will be prepared. Input from industry is being solicited, and will be discussed with industry representatives at the December meeting.

It will require tough negotiations and strong efforts to resolve these and other pending issues in a timely fashion. However, I am confident that we can be successful. Optimism is founded on the sustained strong political will for a successful conclusion of an agreement to reduce or eliminate market-distorting subsidies in steel as well as the strong support from the international steel industry.

As for the future timetable, participants have agreed to continue with the negotiations on an accelerated basis. In addition to the December meeting, this will include sessions in February and April 2004. By end-April, we hope to have an advanced negotiating text completed, for consideration by the High-Level Group at that time.

## Steel Subsidies Agreement

## WTO Agreement on Subsidies and Countervailing Measures

### Prohibited subsidies

To assist exports

Subsidies contingent on use of domestic goods

All other specific subsidies specific (except as expressly permitted), including:

Grants, loans or loan guarantees for –

- Modernisation
- Expanding facilities
- Covering operating losses
- Cleaning up balance sheets

Assumption of debt

Tax "holidays" or other tax exemptions

Investment tax incentives

Equity infusions

### Permitted subsidies

*Limited* closure aid to help workers, environmental clean-up and dismantling of permanently deactivated facilities

*Limited* natural disaster aid

*Limited* subsidies for developing economies and, possibly, economies in transition

*Limited* aid for R&D, environment and privatisation are under discussion, as are a number of other items

Non-specific (i.e., generic) subsidies, such as generally available tax credits for R&D, investment, etc.

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Equity infusions

*Unlimited* closure aid to help workers, environmental clean-up and dismantling of permanently deactivated facilities

*Unlimited* natural disaster aid

*Unlimited* subsidies for developing economies and economies in transition (except for prohibited subsidies)

*Unlimited* aid for R&D, environment and privatisation are under discussion, as are a number of other items

Non-specific (i.e., generic) subsidies, such as generally available tax credits for R&D, investment, etc.

**Note:** This is an assessment based on an informal appraisal of where the negotiations stood as of 15 October 2003. It does not necessarily reflect the views of the participants in the negotiations, nor does it intend to pre-judge a final outcome. Please note that permitted and prohibited subsidies are both actionable under the WTO Agreement, and would be actionable under the Steel Agreement, unless parties agree otherwise.