



**THE OECD HIGH-LEVEL STEEL INITIATIVE**

**The OECD Breakfast Series**

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# THE OECD HIGH-LEVEL STEEL INITIATIVE

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# DEVELOPMENTS IN THE STEEL MARKET

- STEEL INDUSTRY DRIFTING FROM CRISIS TO CRISIS
- CYCLICAL INDUSTRY – DEVELOPING AND TRANSITION ECONOMIES MAJOR PLAYERS
- THE EMERGING MARKETS CRISIS DESTABILISED GLOBAL STEEL TRADE
- SURGE IN TRADE ACTIONS AGAINST STEEL IMPORTS
- STEEL INDUSTRY – A WEAK PATIENT FINANCIALLY

# THE US STEEL INITIATIVE

● PRESIDENT BUSH'S STEEL INITIATIVE OF 6TH JULY 2001:

- A SECTION 201 INVESTIGATION
- INTERNATIONAL CONSULTATIONS ON:
  - 1) THE GLOBAL REDUCTION OF EXCESS CAPACITY
  - 2) STRONGER MULTILATERAL DISCIPLINES ON MARKET DISTORTING PRACTICES

# **INTERNATIONAL RESPONSE TO US STEEL INITIATIVE**

- **NEGATIVE TO SECTION 201 INVESTIGATION, ESPECIALLY FOLLOWING SAFEGUARD ACTION RAISING TARIFFS ON 21 PRODUCT GROUPS IN MARCH 2002**
- **POSITIVE TO PROPOSED MULTILATERAL DISCUSSIONS ON CAPACITY REDUCTION AND STRENGTHENING DISCIPLINES**

## **WHY CHOOSE THE OECD FOR THESE DISCUSSIONS?**

- OECD IS A FORUM WHERE GOVERNMENT OFFICIALS CAN MEET WITH COUNTERPARTS FOR ANY PURPOSE THAT SERVES THEIR COMMON INTERESTS
- MEMBERSHIP IS LIMITED (30 COUNTRIES) AND WE CAN BE FLEXIBLE IN TERMS OF ENGAGING NON-MEMBERS. SO WE CAN BRING THE RIGHT GROUP OF COUNTRIES TOGETHER WHILE KEEPING THE NUMBERS MANAGEABLE
- WE HAVE A HISTORY OF DEALING WITH STEEL ISSUES AND NEEDED INDUSTRY-SPECIFIC EXPERTISE

# THE STEEL ACTIVITIES OF THE OECD

## • THE OECD STEEL COMMITTEE:

- CREATED IN 1978
- 28 OECD MEMBERS + BRAZIL;
- ARGENTINA, BULGARIA, INDIA, ROMANIA, RUSSIA AND UKRAINE PARTICIPATE AS OBSERVERS;
- ACCOUNT FOR 74 PERCENT OF WORLD STEEL PRODUCTION, 65 PERCENT OF APPARENT CONSUMPTION

## **THE STEEL ACTIVITIES OF THE OECD (cont'd)**

- **THE OECD HIGH-LEVEL STEEL INITIATIVE:**
  - SEPARATE FROM STEEL COMMITTEE
  - INCLUDES VIRTUALLY ALL MAJOR STEELMAKING COUNTRIES WITH THE EXCEPTION OF CHINA, WHICH HOPEFULLY WILL JOIN SOON;
  - HIGH-LEVEL = INVOLVEMENT OF VICE-MINISTERS OR DIRECTORS-GENERAL
- **INITIATIVE AIMS TO:**
  - 1. ELIMINATE INEFFICIENT EXCESS CAPACITY, AND
  - 2. STRENGTHEN MULTILATERAL DISCIPLINES

# ELIMINATION OF INEFFICIENT EXCESS CAPACITY

- WHAT IS INEFFICIENT EXCESS CAPACITY?
- RESPECT COMPETITION LAW
- THE HIGH-LEVEL GROUP'S ACTIVITIES:
  - to evaluate the long-term economic viability of their steel facilities in an open global market;
  - to identify the response of their steel companies to changing competitive conditions in world steel markets in recent years, and consider what further actions their industry is likely to take;
  - to identify the facilities unlikely to be economically viable;
  - to identify the principal economic, social and regulatory issues that are impeding, or could impede, closure/reduction of this capacity; and
  - to consider policies to facilitate the reduction/closure of inefficient facilities via market forces.

# ELIMINATION OF INEFFICIENT EXCESS CAPACITY (CONT'D)

- ELIMINATION OF 91-95 MT BETWEEN 1998 AND 2003; 22-23 MT BETWEEN 2003 AND 2005
- HOW RELIABLE ARE THESE NUMBERS?
  - IMPACT OF US SAFEGUARD MEASURES?
  - NO BINDING CHARACTER: REFLECT INDUSTRY'S ASSESSMENT AT A GIVEN TIME
- HIGH LEVEL GROUP HAS ESTABLISHED MORE RIGOROUS REVIEW PROCEDURES

## **THEMES FROM DISCUSSIONS SO FAR**

- **ECONOMIC AND SOCIAL COSTS OF RESTRUCTURING IN STEEL ARE HIGH**
- **MOST COSTS OF RESTRUCTURING OR CLOSURES HAVE BEEN BORNE BY THE INDUSTRY ITSELF. PUBLIC FUNDING HAS BEEN LIMITED TO A “SOCIAL BUFFER”**
- **NO SPECIAL LEGISLATION OR REGULATORY EASING FOR STEEL. BUT GENERAL LEGISLATION TO ASSIST INDUSTRY EXISTS IN SOME COUNTRIES AND MEASURES TO PROTECT EMPLOYER-PAID PENSIONS HAVE BEEN PUT IN**
- **LACK OF FINANCING FOR CLOSURES IS A MAJOR PROBLEM IN TRANSITION COUNTRIES**

# OUTSTANDING ISSUES ON THE CAPACITY FRONT

- INTERNATIONAL FINANCING FOR CLOSURES: A FUND WOULD BE DESIRABLE, AND MAY BE FEASIBLE, BUT IS NOT YET AGREED
- MORE REALISTIC INDUSTRY FORECASTS AND MORE CAPACITY REDUCTION ARE NEEDED

# STRENGTHENING MULTILATERAL DISCIPLINES

- WTO AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES HAS FAILED TO LIMIT SUBSIDIES AND GOVERNMENT SUPPORT FOR STEEL
- THIS HAS BEEN RECOGNISED FOR DECADES
- EARLIER ATTEMPTS TO NEGOTIATE COMPREHENSIVE MULTILATERAL STEEL AGREEMENTS (LATE 1970S AND LATE 1980S/EARLY 1990S) FAILED
- CURRENT EFFORT IS THIRD TRY

# HIGH LEVEL GROUP MANDATE TO DISCIPLINES STUDY GROUP

- *to explore the scope for a political commitment by participants to voluntarily limit 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.*

## **EMERGING PRIORITIES**

- **SUBSIDIES AND RELATED GOVERNMENT SUPPORTS – GENERAL SUPPORT FOR PROHIBITING MOST TYPES OF SUBSIDIES TO STEEL**
- **TRADE REMEDIES – HIGHLY CONTROVERSIAL; MOST PARTIES AGREE THESE SHOULD BE LEFT TO WTO**

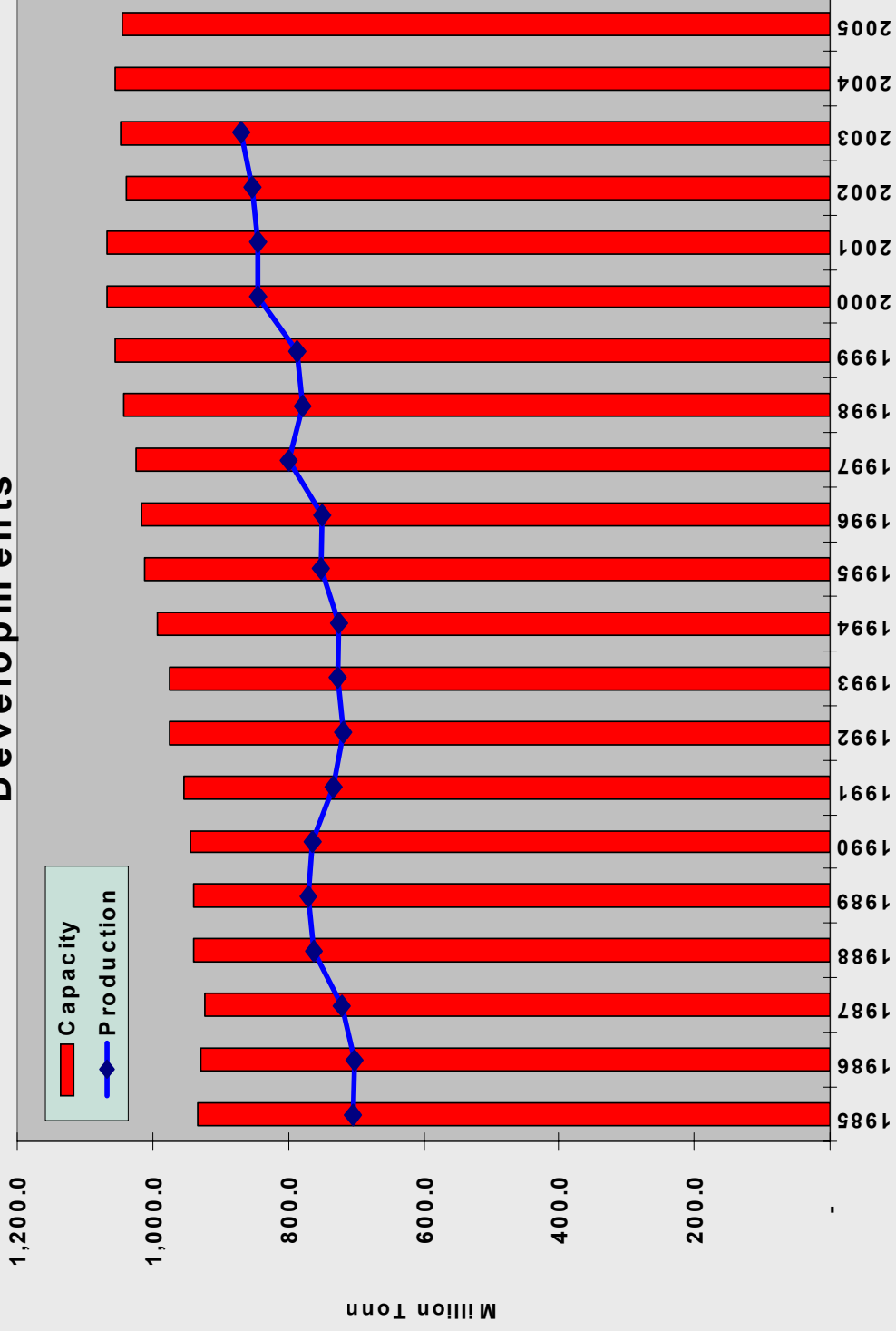
# AN OECD SECRETARIAT DRAFT AGREEMENT PROVIDES BASIS FOR NEGOTIATIONS

- OBJECTIVE IS AGREED TEXT PRIOR TO WTO MINISTERIAL IN CANCUN IN SEPTEMBER
- ISSUE: SHOULD THERE BE A STAND-ALONE AGREEMENT OR ANY AGREEMENT TO BE FED INTO THE WTO FRAMEWORK
- ADVANTAGES TO THE LATTER

# MAIN ISSUES TO BE RESOLVED

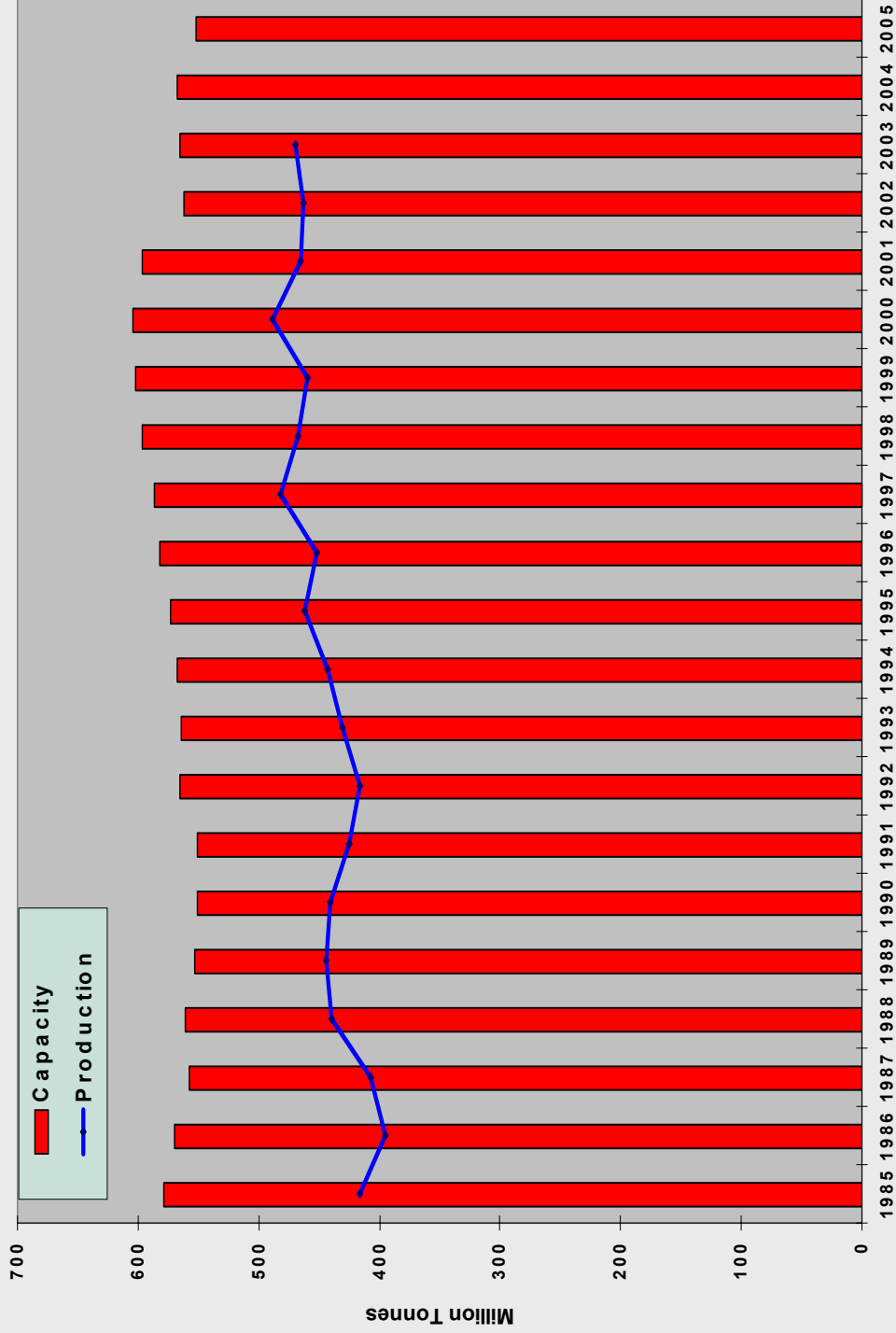
- DEFINITION AND COVERAGE OF THE AGREEMENT
- PROHIBITION OF SUBSIDIES
- EXCEPTIONS FROM THE PROHIBITION
- SPECIAL AND DIFFERENTIAL TREATMENT
- NOTIFICATION AND SURVEILLANCE OF PERMITTED SUBSIDIES
- REMEDIES AND COUNTERVAILING DUTIES

# World Crude Steel Capacity and Production Developments



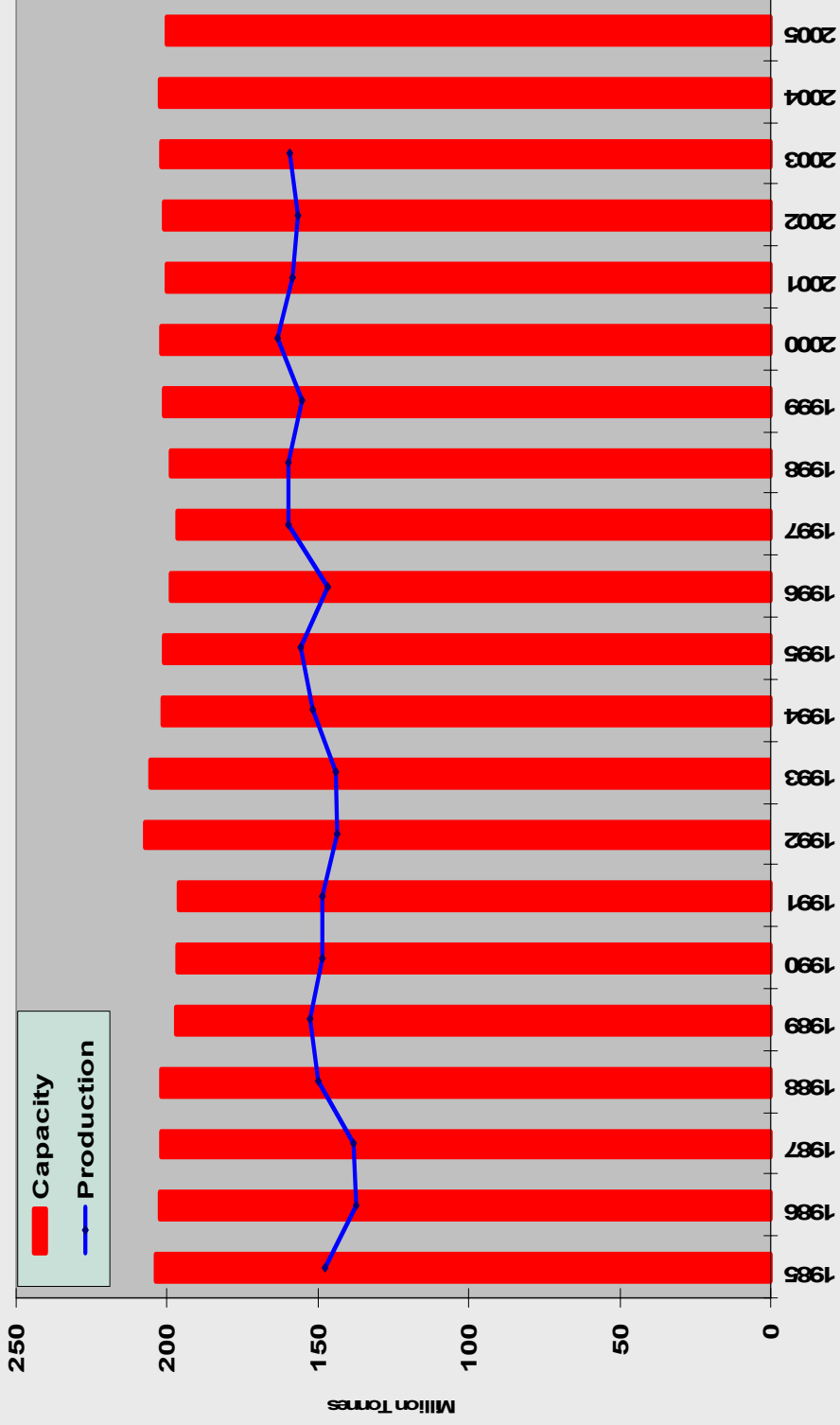
Source: OECD

# OECD Crude Steel Capacity and Production



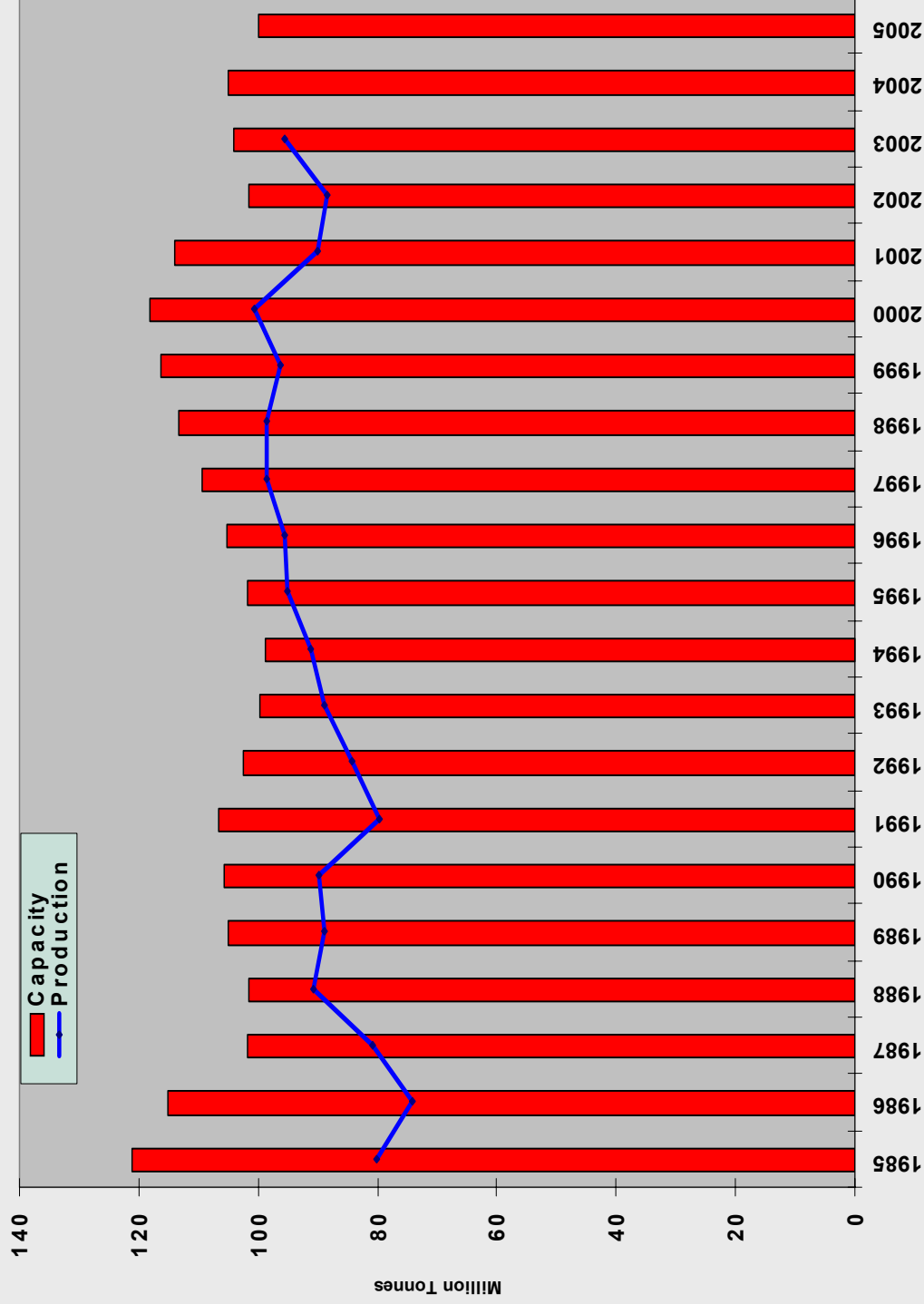
Source: OECD

# Capacity and Production Developments in the EU(15)



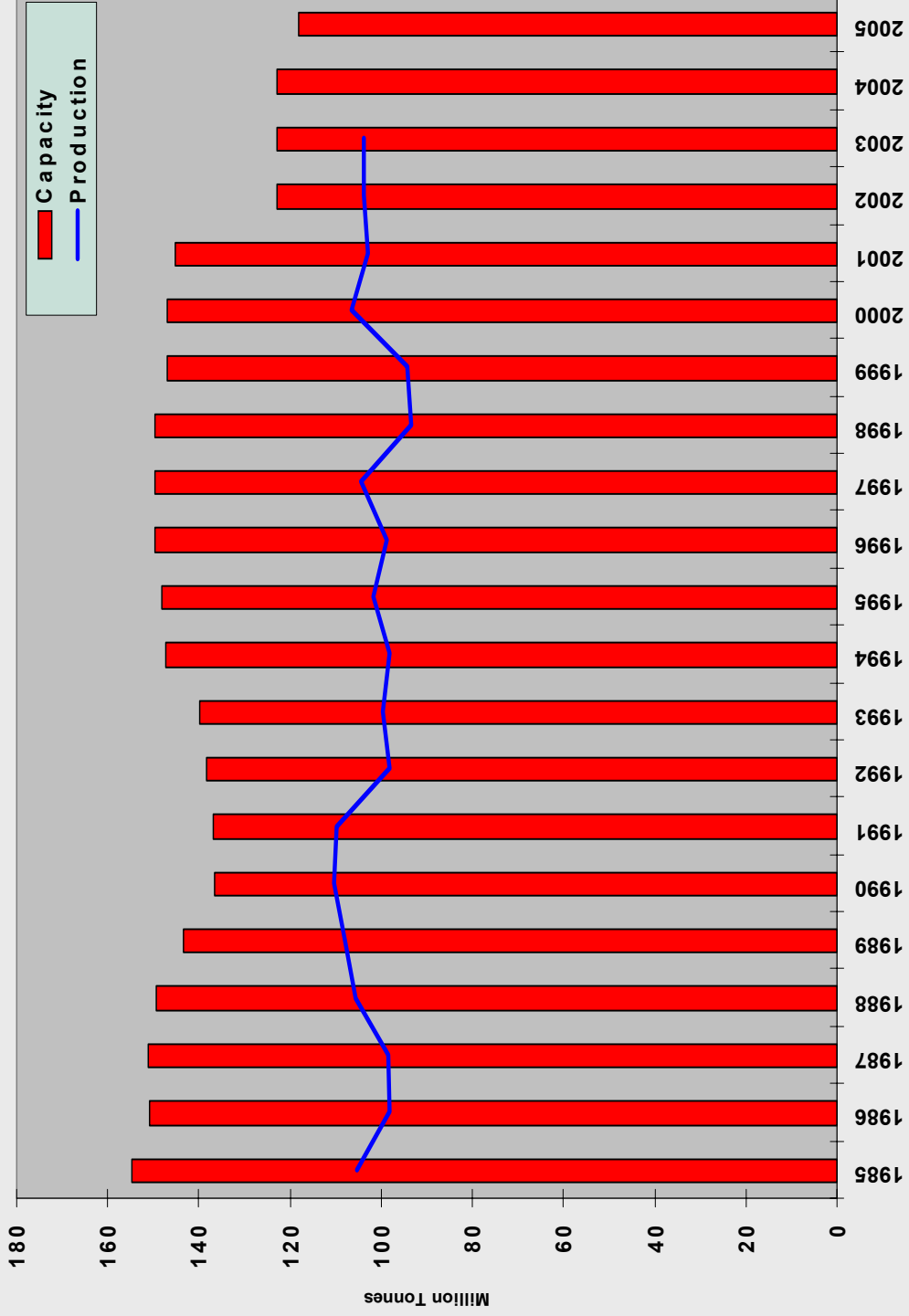
Source: OECD

# Crude Steel Capacity and Production in the USA



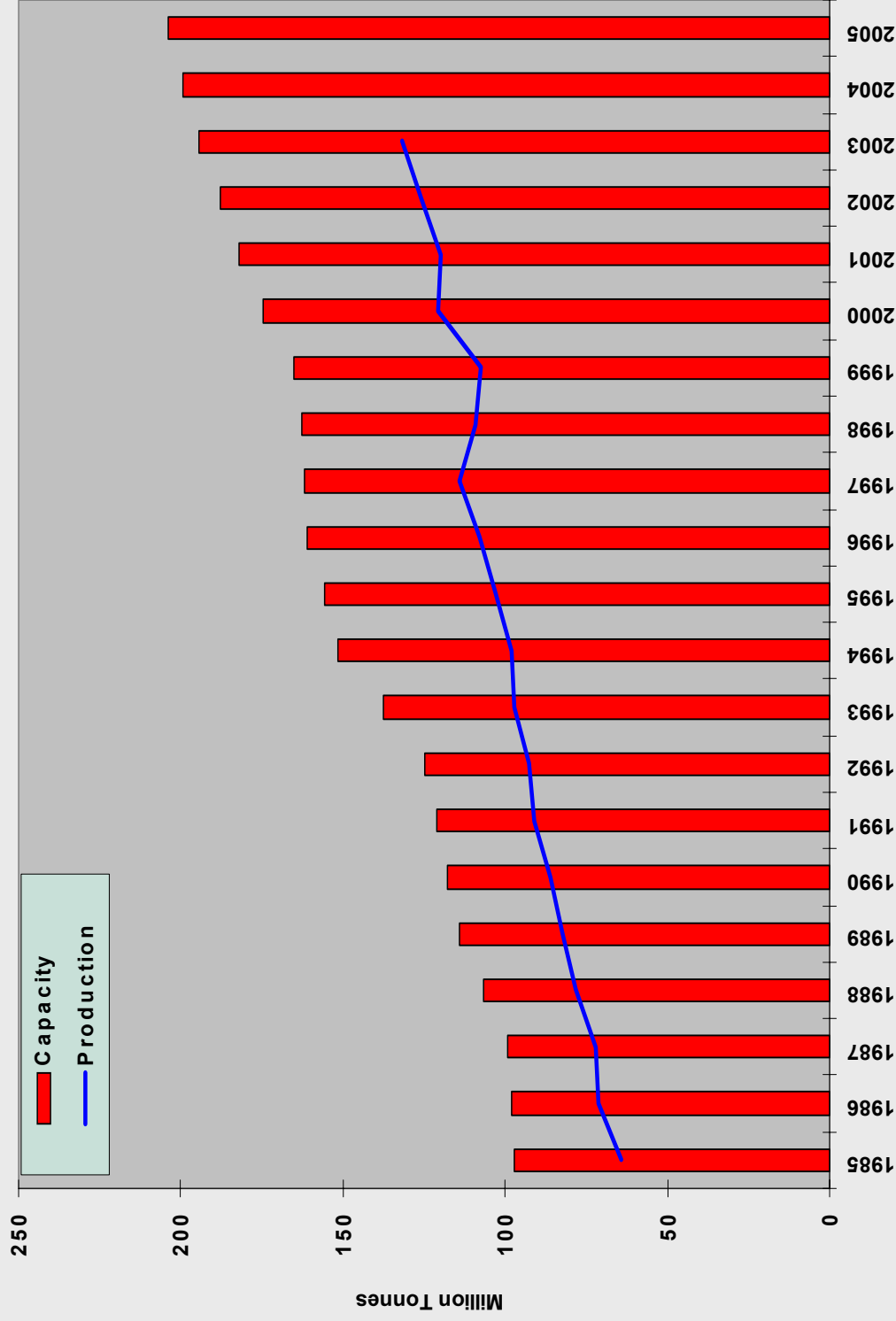
Source: OECD

# Crude Steel Capacity and Production in Japan



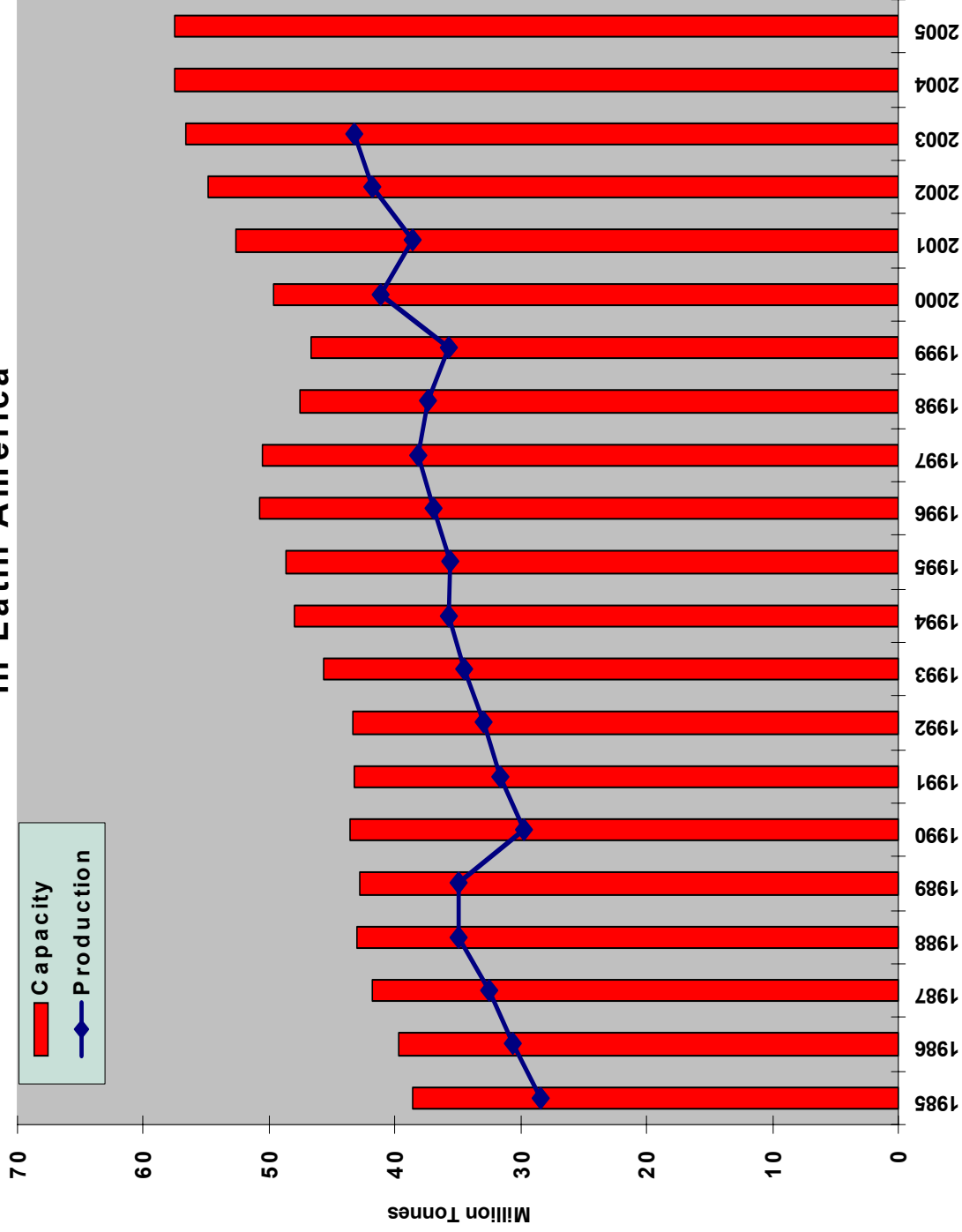
Source: OECD

# Crude Steel Capacity and Production in the Non-OECD Market Economies



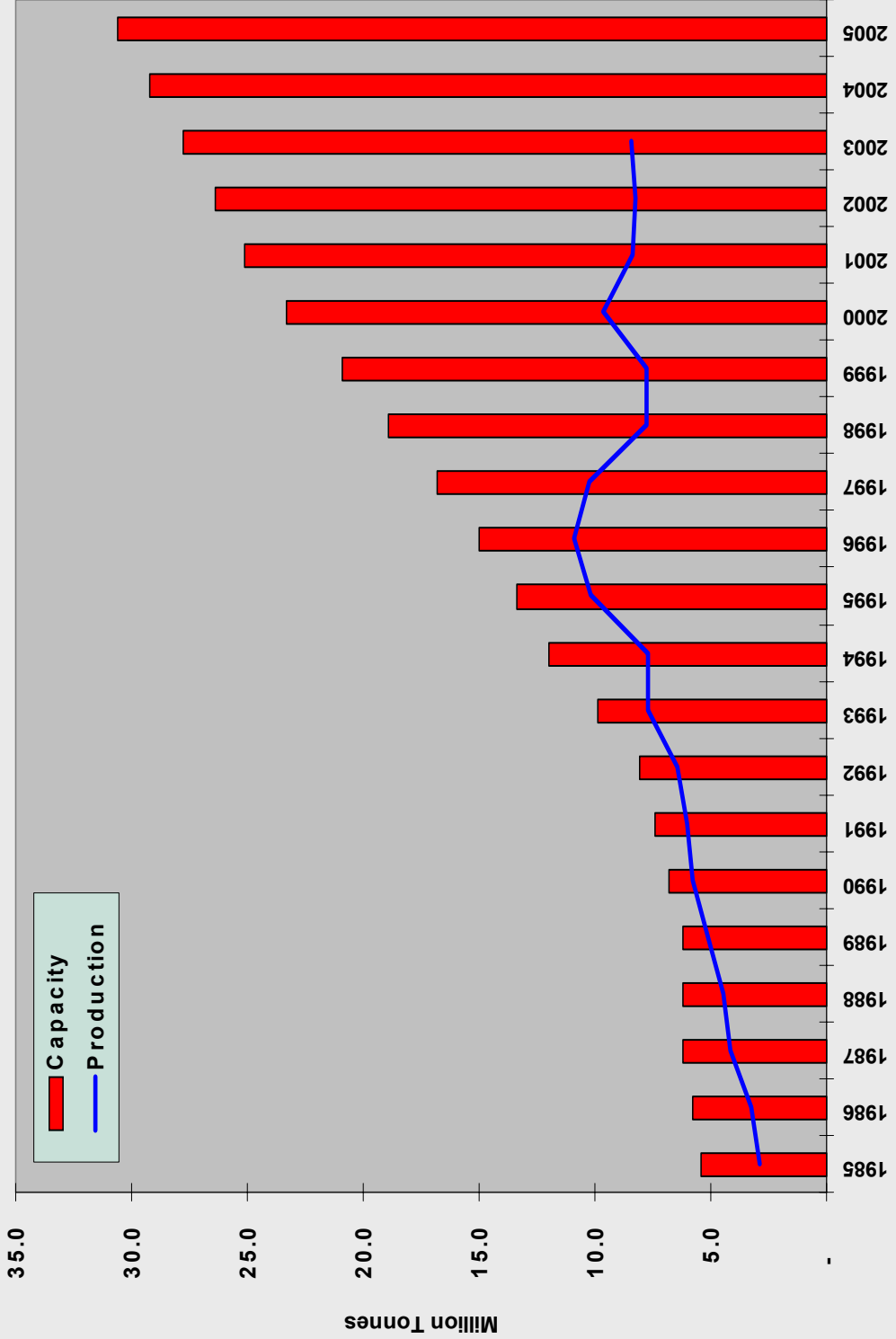
Source: OECD

# Crude Steel Capacity and Production Developments in Latin America



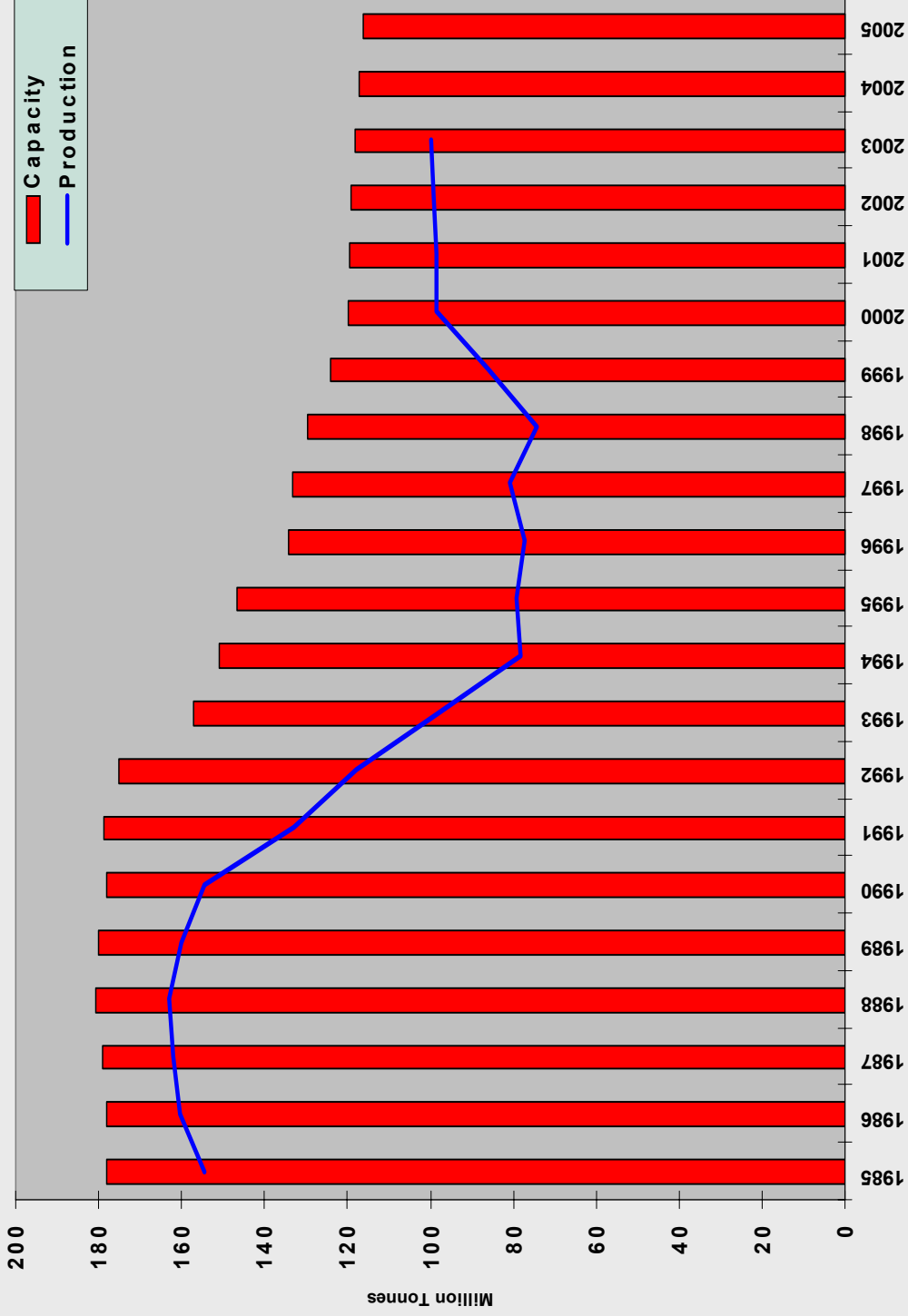
Source: OECD

# Crude Steel Capacity and Production in the ASEAN(5)



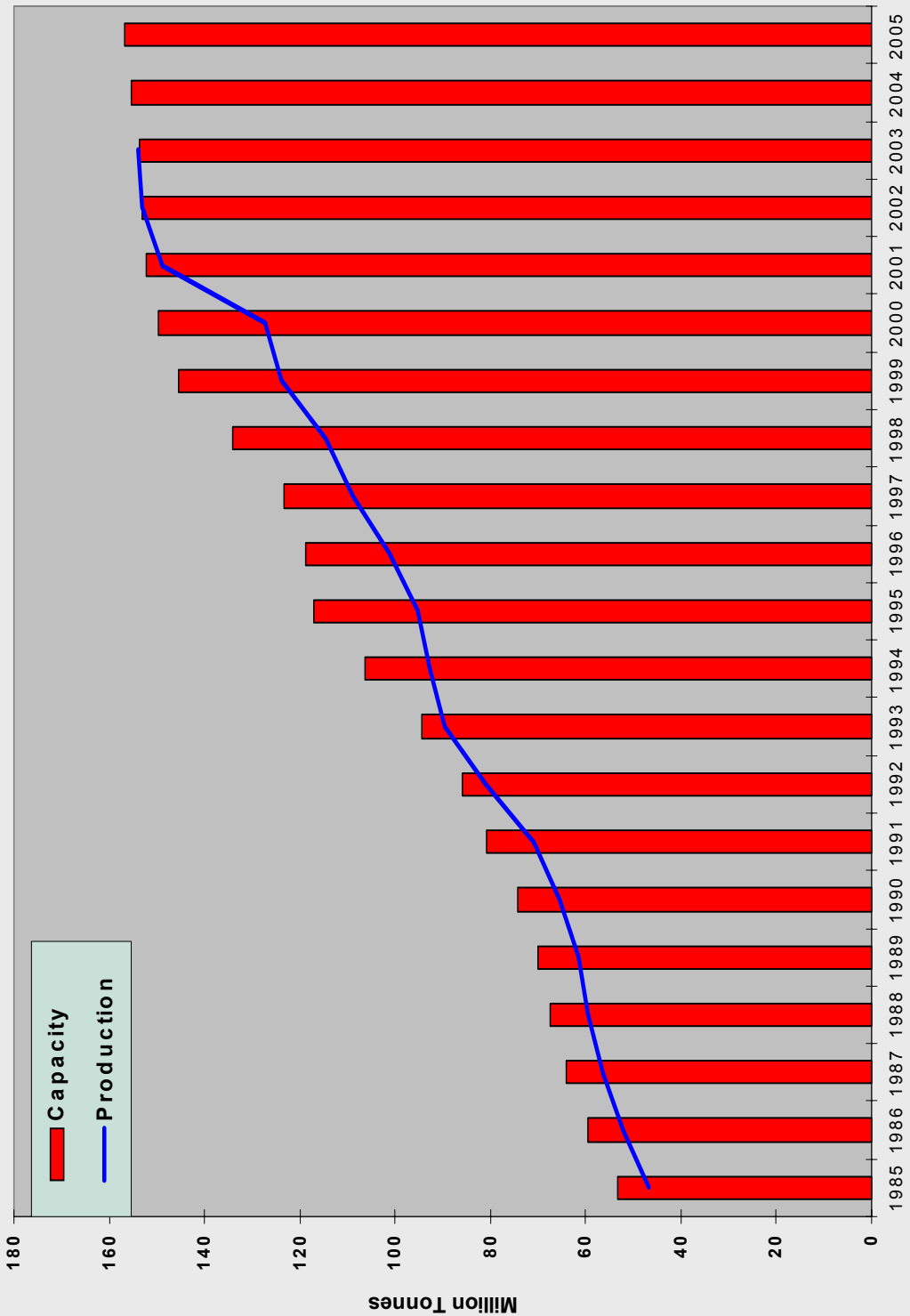
Source: OECD

# Crude Steel Capacity and Production in the NIS



Source: OECD

# Crude Steel Capacity and Production in China



Source: OECD