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# **Executive Summary** ArcelorMittal USA's Submission Regarding the Global Steel Situation

- Arcelor Mittal USA ("AMUSA") is a leading supplier of steel products in the U.S. market, including to the automotive, construction, pipe and tube, appliance, container and machinery sectors. AMUSA employs more than 20,000 people at 27 operations across the United States.
- AMUSA is a petitioner in ongoing antidumping/countervailing duty investigations concerning corrosion-resistant steel products (five countries), cold-rolled steel products (eight countries), and hot-rolled steel products (seven countries). Massive excess capacity in third countries has resulted in a surge of low-priced imports that has led to lost U.S. sales and the financial deterioration of the U.S. steel industry in recent years.
- Global steelmaking capacity has more than doubled since 2000, increasing from [

] metric tons in 2000 to [ ] metric tons in 2015. Although Asia accounts for nearly three-fourths of the increase in steelmaking capacity from 2013-2017, the Middle East, the CIS countries, Latin America, and Africa experienced significant growth in capacities during this period.

- Despite the surge in capacity, steel consumption growth has been modest in recent years.
  The gap between capacity and demand has widened to [ ] percent in February 2016, representing "one of the highest gaps in the history of the global steel industry."
- With investment projects continuing to increase in a number of countries, and while steel consumption growth is projected to remain moderate, the global imbalance between capacity and demand poses risks for the steel industry for the foreseeable future. Based on

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OECD reports, global melt capacity is projected to increase to [ ] metric tons in 2017, up from [ ] metric tons in 2015.

- As the world's largest steel producing country with over 50 percent of global steel production, China has been the dominant offender in terms of overcapacity. China's crude steel capacity reached 1.16 billion metric tons at the end of 2014 and efforts to curtail its massive capacity have been largely ineffective.
- As a result of these expansions and this significant excess capacity, Chinese producers are exporting an increasing volume of their steel to overseas markets, including the United States.
- Despite the Chinese government's promise to restructure the steel industry and remove excess capacity, multiple Chinese steel producers have recently expanded capacity with new investments and/or restarted previously idled facilities.
- The rapid growth in capacity has been supported and fueled by numerous government subsidies and preferential policies that have conferred countervailable benefits on foreign producers.
- The large size and open nature of the U.S. market provide foreign producers with excess capacity a significant incentive to export massive volumes of steel to the U.S. market.
- AMUSA urges the U.S. Government to strictly enforce the U.S. trade laws and to continue to treat China as a non-market economy so that U.S. producers will no longer be forced to endure the significant injurious effects of global excess steel capacity.

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March 29, 2016

## USTR-2016-0001 **PUBLIC VERSION**

Jim Sanford

Assistant U.S. Trade Representative for Small Business, Market Access and Industrial Competitiveness Office of the U.S. Trade Representative Executive Office of the President 600 17<sup>th</sup> Street N.W. Washington, DC 20508

#### Re: **Request for Comments and Notice of Public Hearing Concerning Policy** Recommendations on the Global Steel Industry Situation and Impact on **U.S. Steel Industry and Market**

Dear Mr. Sanford:

On behalf of ArcelorMittal USA ("AMUSA"), we hereby submit the following comments concerning the global steel industry situation pursuant to the Notice of Request for Comments published by the Office of the United States Trade Representative on March 4, 2016.<sup>1</sup> AMUSA is a leading supplier of steel products in the U.S. market, including to the automotive, construction, pipe and tube, appliance, container and machinery sectors. AMUSA employs more than 20,000 people at 27 operations across the United States.

At present, AMUSA and other U.S. steel producers are experiencing serious challenges fueled by global overcapacity and unfair trading practices of foreign steel producers. Excess production of steel in third countries such as China has led to increased exports and depressed

See Request for Comments and Notice of Public Hearing Concerning Policy 1 Recommendations on the Global Steel Industry Situation and Impact on U.S. Steel Industry and Market, 81 Fed. Reg. 11,638 (USTR March 4, 2016) (the "Notice of Request for Comments").

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prices, and has given rise to an unprecedented wave of unfair trading practices, distorting the global level playing field. Despite AMUSA's efforts to innovate and modernize, the company has experienced injury due to the surge in U.S. imports of steel in recent years. AMUSA is currently a petitioner in antidumping/countervailing duty investigations concerning corrosion-resistant ("CORE") steel products (five countries), cold-rolled steel products (eight countries), and hot-rolled steel products (seven countries). In these cases, as well as in other steel products, massive excess capacity in third countries has resulted in a surge of low-priced imports that has resulted in the financial deterioration of the U.S. steel industry in recent years. AMUSA requests that the trade laws of the United States be strictly enforced to stem the injury that U.S. producers and their workers are suffering at the hands of unfairly-traded steel imports. The current global overcapacity situation has given rise to an unprecedented need to ensure that the integrity of those laws is maintained.

# I. <u>STATUS AND CAUSES OF THE EXCESS CAPACITY SITUATION IN THE</u> <u>GLOBAL STEEL INDUSTRY</u>

The global steel industry continues to suffer from massive overcapacity that is continuing to wreak havoc on the U.S. and global steel markets. Global steelmaking capacity has more than doubled since 2000, increasing from [ ] metric tons in 2000 to [ ] metric tons in 2015.<sup>2</sup> The Organization for Economic Co-operation and Development ("OECD") projects global steelmaking capacity to further increase to [ ] metric tons in 2017. <u>Id.</u>

This rapid growth in capacity has been supported and fueled by numerous government subsidies and preferential policies (including subsidies for the creation of new capacity or the maintenance of inefficient capacities) that have conferred countervailable benefits on foreign producers. Some of the subsidies are those that are specifically contingent upon export and are prohibited under the agreements of the World Trade Organization. Indeed, the Department of Commerce recently issued its preliminary determinations in the ongoing countervailing duty investigations concerning CORE, cold-rolled steel products and hot-rolled steel products and determined that the industries in Brazil, China, India, Italy, and Russia are benefiting from government subsidies, including a number of export subsidies.<sup>3</sup> In addition, China and India have national policies in place to encourage and promote the development of the steel industry, including the production of CORE, cold-rolled and hot-rolled steel products. Many Chinese producers are state-owned and others are heavily influenced by the Chinese government at all

<sup>3</sup> See Countervailing Duty Investigation of Certain Corrosion-Resistant Steel Products from the People's Republic of China: Preliminary Affirmative Determination, 80 Fed. Reg. 68,843 (Dep't Commerce Nov. 6, 2015): Countervailing Duty Investigation of Certain Corrosion-Resistant Steel Products from India: Preliminary Affirmative Determination, 80 Fed. Reg. 68,854 (Dep't Commerce Nov. 6, 2015); Countervailing Duty Investigation of Certain Corrosion-Resistant Steel Products from Italy: Preliminary Affirmative Determination, 80 Fed. Reg. 68,839 (Dep't Commerce Nov. 6, 2015); Countervailing Duty Investigation of Certain Corrosion-Resistant Steel Products from the Republic of Korea: Preliminary Affirmative Determination, 80 Fed. Reg. 68,842 (Dep't Commerce Nov. 6, 2015); Countervailing Duty Investigation of Certain Cold-Rolled Steel Flat Products from Brazil: Preliminary Affirmative Determination and Alignment of Final Determination with Final Antidumping Duty Determination, 80 Fed. Reg. 79,569 (Dep't Commerce Dec. 22, 2015); Countervailing Duty Investigation of Certain Cold-Rolled Steel Flat Products From the People's Republic of China: Preliminary Affirmative Determination, Preliminary Partial Affirmative Critical Circumstances Determination, and Alignment of Final Determination with Final Antidumping Duty Determination, 80 Fed. Reg. 79,558 (Dep't Commerce Dec. 22, 2015); Countervailing Duty Investigation of Certain Cold-Rolled Steel Flat Products from India: Preliminary Affirmative Determination and Alignment of Final Determination with Final Antidumping Duty Determination, 80 Fed. Reg. 79,562 (Dep't Commerce Dec. 22, 2015); Countervailing Duty Investigation of Certain Cold-Rolled Steel Flat Products From the Russian Federation: Preliminary Affirmative Countervailing Duty Determination, Preliminary Negative Critical Circumstances Determination, and Alignment of Final Determination With Final Antidumping Duty Determination, 80 Fed. Reg. 79,564 (Dep't Commerce Dec. 22, 2015); and Countervailing Duty Investigation of Certain Hot-Rolled Steel Flat Products from Brazil: Preliminary Affirmative Determination and Alignment of Final Determination with Final Antidumping Duty Determination, 81 Fed. Reg. 2168 (Dep't Commerce Jan. 15, 2016).

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levels, including in the management and operation of the individual steel companies and in the acquisition and supply of raw materials. As a result, Chinese steel producers operate in an environment where normal market forces do not apply and where commercial decisions are mandated and directed by the Chinese government. Thus, until government interference from the steel industry is removed, the global overcapacity problem in China will continue to negatively impact the global steel market and injure the U.S. steel industries.

Although Asia accounts for nearly three-fourths of the increase in steelmaking capacity from 2013 to 2017, the Middle East, the CIS countries, Latin America, and Africa experienced significant growth in capacities during this period.<sup>4</sup> Non-OECD countries are projected to account for 71.4 percent of the increase in global capacity for 2013 to 2017. Id. at 5.

Despite the surge in capacity, steel consumption growth has been modest in recent years. Demand recovery from the global economic and financial crisis of 2008-2009 has been uneven and sluggish in many economies. In 2013, global steel demand stood at 1.648 billion metric tons, or about 516 million tons below global capacity (68.7 percent capacity utilization), representing "one of the highest gaps in the history of the global steel industry." Id. at 7.

The gap between capacity and demand has only widened since 2013. The World Steel Association reported that the global steel industry's capacity utilization rate dropped to [ 1 percent in February 2016.<sup>5</sup> Even as countries continued to expand steel capacity, global demand for steel declined in 2015 largely due to significant steel consumption reductions in China, Brazil,

3.

OECD, Excess Capacity in the Global Steel Industry and the Implications of the New Investment Projects (2015) at 11, at Exh. 2. 1 at Exh.

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and Russia. China's steel consumption declined by [ ] percent from 2014 to 2015, with consumption projected to drop by another [ ] percent in 2016.<sup>6</sup> The president of the Aco Brasil national steel institute characterized the current situation as [

]<sup>7</sup> [

]<sup>8</sup> Steel consumption in

Russia declined [ ] percent from 2014 to 2015, with a projected decline of an additional [ ] percent in 2016.<sup>9</sup> Although India has experienced stronger consumption rates than China, Brazil and Russia, the Indian steel industry has expanded capacity significantly more than the increase in steel consumption. Despite a projected increase in consumption of [ ] metric tons from 2016 to 2017, India's overall steel capacity is projected to grow by [ ] metric tons during same period, accounting for an additional [ ] metric tons of excess capacity.<sup>10</sup>

OECD forecasts that the three-year period from 2014 to 2016 is expected to be characterized by "exceptionally slow global steel demand growth."<sup>11</sup> Forecasts for global demand growth were reduced significantly since the Steel Committee last met in May 2015 – steel demand is now projected to decline by 1.7 percent in 2015, before increasing modestly by 0.7 percent in

<sup>6</sup> ] at Exh. 4. ſ 7 l at Exh. 5. See also Letter from the 26<sup>th</sup> Brazilian Steel Conference (referencing "{t}he combination of structural and circumstantial factors . . . causing a major impact in the internal demand of steel products . . ."). Id. The letter further acknowledges that the "Brazilian steel industry is now operating with less than 70% of its capacity utilization . . ." Id. 8 ] at Exh. ſ 6. 9 ] at Exh. ſ 7. 10 ] at Exh. 8. 11 OECD, Steel Market Developments Q4 2015, (2015) at 18 at Exh. 9.

2016. <u>Id.</u> The downward revision reflects steeper demand contraction in China than was previously anticipated and a significantly weaker outlook for the CIS economies, South America, and many developed countries this year. <u>Id.</u> AMUSA is deeply concerned that with the additional investment projects that have already begun in several countries coupled with the continued stagnant steel consumption rates, global overcapacity will continue to pose risks for its U.S. operations and for the U.S. industry as a whole for the foreseeable future.

# II. <u>CHINA ACCOUNTS FOR THE MAJORITY OF EXCESS GLOBAL CAPACITY</u>

As the world's largest steel producing country with over 50 percent of global steel production, China has been the dominant offender in terms of overcapacity.<sup>12</sup> China's crude steel capacity reached 1.16 billion metric tons at the end of 2014 and efforts to curtail its massive capacity have been largely ineffective. <u>Id.</u> In 2014, China experienced a decline in steel consumption for the first time in three decades and its excess capacity reached over 337 million

See, e.g., Exh. 10 ("Europe steps up fight over cheap steel imports," Financial Times (May 12 25, 2015) (explaining that China's targeted capacity reduction is unlikely to be sufficient given declining Chinese demand; "China is caught with all this capacity, there's always an incentive to keep on producing and offload the material rather than cut production and lose out to a competitor."); "Statement from Risaburo Nezu, Chairman of the OECD Steel Committee" (Dec. 12, 2014); "China's Efforts to Resolve Steel Overcapacity," MOFCOM (Dec. 5, 2013) (acknowledging the Chinese overcapacity issue due, in part, to a "lower than reasonable" capacity utilization rate of 72 percent); "Consumption and Development of China's Steel Market," China Metallurgical Industry Planning and Research Institute (June 2014) (noting that the "{s}erious overcapacity" problem must be addressed by the Chinese government to avoid "further blind expansion"); "Operation of China's Steel Industry and Overcapacity Tackling," MOFCOM (May 2015) (noting that China's steel production capacity utilization rate is "still below the normal level" at 70.9 percent, and that the Chinese industry must eliminate 50 million tons of capacity over the next several years); "China's Steel Exports Rev Up as Domestic Demand Sputters," Market Realist (July 17, 2015) (noting that Chinese steel demand will fall 6% in 2015, but steel production will decline by only 1%); and "China's Churning Out Steel And the World Isn't Happy," Bloomberg (June 18, 2015).

metric tons<sup>13</sup> – nearly <u>four</u> times total U.S. crude steel output of 86.9 million tons in 2013.<sup>14</sup> Nevertheless, China continues to add more capacity "despite difficult market conditions." <u>Id.</u> and Exh. 12.

In spite of the Chinese government's promise to restructure the steel industry and remove some excess steel capacity, multiple Chinese producers have restarted idled facilities as recently as first quarter 2016. [

]<sup>15</sup> Mysteel stated that [

# ] <u>Id.</u>

This small sample of Chinese producers' massive future growth in steel capacity, particularly when current capacity is underutilized and lacks a meaningful domestic market, makes clear the significance and imminence of the threat that the excess capacity from China poses to the U.S. market. As a result of these expansions, Chinese producers are exporting an increasing volume of their steel to overseas markets, including to the United States. With demand in China expected to remain sluggish in the near future, the global steel markets will be flooded with even more Chinese steel as producers continue to offload their excess production.

<sup>&</sup>lt;sup>13</sup> <u>See</u> "Operation of China's Steel Industry and Overcapacity Tackling," MOFCOM (May 2015) (showing Chinese steel capacity at 1,160 million tons and production at 823 million tons, leaving 337 million tons of excess capacity) at Exh. 10.

<sup>&</sup>lt;sup>14</sup> See World Steel Association's "Steel Statistical Yearbook 2014" at Exh. 11.

# III. <u>THE LARGE AND OPEN NATURE OF THE U.S. MARKET MAKES IT</u> <u>ATTRACTIVE TO EXPORTS</u>

The large size and open nature of the U.S. market provide producers with excess capacity with a significant incentive to continue shipping massive volumes of steel to the U.S. market. The rapid increase in the volume of imports of steel in 2014 and 2015 demonstrate the attractiveness of this market to subject producers and their interest in and ability to rapidly penetrate the U.S. market.

In addition, while several major export markets have imposed some form of trade barrier against subject producers, the vast majority of imports of carbon steel enter the United States dutyfree. Many foreign producers have an established U.S. distribution network in place, as well as existing customers, making it very likely that the U.S. market will remain a primary outlet for foreign producers' excess capacity. Thus, foreign producers have the ability to easily ramp up sales and marketing activities with their existing customers and sales networks to expand their sales and exports to the United States even further. Given relatively stronger demand in the United States vis-à-vis other countries, as well as the size of demand in U.S. commercial market, the United States remains a very attractive market for subject steel imports.

# IV. STATUS OF THE U.S. STEEL MARKET

The global overcapacity situation has had a detrimental impact on the U.S. steel industry. The OECD report concluded that "the combined effect of the weakening global demand, growing imports in many economies, and decreases in steelmaking costs has led to a very sharp decline in world steel prices." OECD found that world hot-rolled coil prices fell by 31 percent from January 2015 to November 2015. <u>Id.</u> March 29, 2016 Page 9

With regard to the U.S. industry, the surge in imports of steel during 2014 and 2015 has resulted in significant price declines across virtually all product lines. In the preliminary phases of the trade cases concerning CORE steel products, cold-rolled steel products, and hot-rolled steel product, the International Trade Commission ("ITC") found that as a result of significant underselling by subject imports, the domestic industry lost market share and that these imports have had or likely will have significant price effects on the U.S. steel producers.<sup>16</sup>

The global overcapacity situation has had a negative impact on the financial condition of the steel industry across the world. The OECD report found that the steel industry as a sector is clearly underperforming most other industries.<sup>17</sup> Globally, the steel industry's average operating margin was ranked 79 out of 96 listed industries. <u>Id.</u> If only manufacturing firms are included in the analysis, steel is ranked amongst the very least profitable industries. <u>Id.</u>

With regard to the U.S. industry, domestic producers have suffered financial deterioration as result of the surge in low-priced imports of steel during 2014-2015. In the preliminary phases

<sup>16</sup> In the CORE investigations, the ITC found that "imports of subject merchandise are likely to continue underselling the domestic like product and enter at prices that are likely to have a significant depressing effect on domestic prices and likely to increase demand for further imports." Certain Corrosion-Resistant Steel Products from China, India, Italy, Korea, and Taiwan, Inv. Nos. 701-TA-534-538 and 731-TA-1274-1278 (Prelim), USITC Pub. 4547 (July 2015) at 30. In the cold-rolled steel products investigations, the ITC found that due to "significant underselling by subject imports, which caused the domestic industry to lose market share," subject imports are likely in the imminent future to enter the U.S. market at prices that are likely to increase demand for further imports. Certain Cold-Rolled Steel Flat Products from Brazil, China, India, Japan, Korea, Netherlands, Russia, and the United Kingdom, Inv. Nos. 701-TA-540-544 and 731-TA-1283-1290 (Prelim), USITC 4564 (Sept. 2015) at 40-41. In the hot-rolled steel products investigations, the ITC found that "subject imports have depressed prices for the domestic like product to a significant degree." Certain Hot-Rolled Steel Flat Products from Australia, Brazil, Japan, Korea, the Netherlands, Turkey, and the United Kingdom, Inv. Nos. 701-TA-545-547 and 731-TA-1291-1297 (Prelim) USITC Pub. 4570 (Oct. 2015) at 31.

<sup>&</sup>lt;sup>17</sup> OECD, Steel Market Developments Q4 2015, (2015) at 18 at Exh. 9.

of the trade cases concerning CORE steel products, cold-rolled steel products, and hot-rolled steel products, the ITC found that the subject imports have had or likely will have an adverse impact on the domestic industry, noting that the pervasive underselling led to loss of market share and financial deterioration for the domestic industry.<sup>18</sup>

The fundamental factor that led to the filing of these trade cases was the substantial excess global capacity that has resulted in the increase of low-priced steel exports to the United States.

# V. <u>CONCLUSION/RECOMMENDATIONS</u>

Global overcapacity in the steel sector is having severe implications on steel producers around the world, but the U.S. producers have been hit particularly hard as the United States is the primary target market for global steel exports. AMUSA urges the U.S. Government to strictly enforce the U.S. trade laws to address this dire situation. AMUSA further urges that the U.S. Government continue to treat China as a non-market economy to permit the U.S. steel industry to fully address its unfair trading practices.

Respectfully submitted,

anon Kx h

PAUL C. ROSENTHAL KATHLEEN W. CANNON R. ALAN LUBERDA

<sup>&</sup>lt;sup>18</sup> In the CORE investigations, the ITC found that subject imports will likely undersell the domestic like product, have significant depressing effect on domestic prices and are likely to increase demand for further imports, and these subject imports will likely exacerbate declines in market share and trade and financial indicators. <u>See</u> USITC Pub. 4547 at 33. In the cold-rolled steel products investigations, the ITC found that "the significant volumes of low-priced subject imports will likely displace sales of the domestic like product and cause the domestic industry to lose market share, which will lead to adverse effects on the domestic industry's revenues and financial performance." <u>See</u> USITC 4564 at 40-41. In the hot-rolled steel products investigations, the ITC found that subject imports had a significant impact on the domestic industry by the end of the POI, noting that there was significant underselling by the subject imports and price depression. As a result of both lost market share and declining prices, the domestic industry's revenues were lower than they would have been. <u>See</u> USITC Pub. 4570 at 34.

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	INDEX TO EXHIBITS
Exhibit No.	Description
1	[ ]
2	OECD, Excess Capacity in the Global Steel Industry and the Implications of the New Investment Projects (2015)
3	[ ]
4	[ ]
5	[ ] and Letter from the 26 <sup>th</sup> Brazilian Steel Conference
6	[ ]
7	[ ]
8	[ ]
9	OECD, Steel Market Developments Q4 2015, (2015)
10	Articles Regarding Steel Overcapacity in China
11	World Steel Association's "Steel Statistical Yearbook 2014"
12	Articles on Chinese Producers' Capacity Expansions
13	[ ]

# **EXHIBIT 1**

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Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects

OECD



# EXCESS CAPACITY IN THE GLOBAL STEEL INDUSTRY AND THE IMPLICATIONS OF NEW INVESTMENT PROJECTS

# POLICY PAPER

#### FOREWORD

This paper combines two documents that were approved by the OECD Steel Committee in January 2015.

Note to Delegations: The two documents that comprise this Policy Paper are also available on OLIS under reference codes DSTI/SU/SC(2014)15/FINAL and DSTI/SU/SC(2014)16/FINAL

Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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# EXCESS CAPACITY IN THE GLOBAL STEEL INDUSTRY AND THE IMPLICATIONS OF NEW INVESTMENT PROJECTS

by Anthony de Carvalho, Naoki Sekiguchi and Filipe Silva

OECD, Paris

#### ACKNOWLEDGMENTS

Government and industry representatives participating in the OECD Steel Committee are increasingly concerned about excess capacity in the global steel industry. Excess capacity has led to deterioration in the financial situation of steelmakers and is raising questions about its impact on the longer-term economic viability and efficiency of the industry. As a result, the OECD Steel Committee plans to deepen its work on excess capacity in the next biennium. This paper combines two documents that were declassified by the Steel Committee in early 2015, one that summarises the main policy issues regarding excess capacity and one which focusses on monitoring new steel investment projects taking place around the world. The Secretariat would like to thank all delegations that have contributed actively to the Steel Committee's activities on excess capacity, particularly those that provided very useful comments and feedback on the two papers that were combined to form this Policy Paper. Nevertheless, any remaining errors or omissions are the responsibility of the Secretariat.

#### **EXECUTIVE SUMMARY**

Governments participating in the OECD Steel Committee consider excess capacity as being one of the main challenges facing the global steel sector today. Following the Ministerial Council Meeting on 6-7 May 2014, where Ministers stressed the need to address the issue of excess capacity in some industries such as steel, the OECD Steel Committee has deepened its discussions on capacity, and will take this work further in the next few years. To increase visibility of the key issues, the Steel Committee declassified two papers linked to excess capacity in early 2015. Those two papers have been combined to form this Policy Paper on excess steelmaking capacity and the implications of new investment projects.

More specifically, this paper examines the extent, causes, and impacts of excess capacity in the global steel industry, and provides detailed information on new investment projects that are taking place around the world in order to help governments and industry better understand the extent to which excess steelmaking capacity may evolve in the future. For readers interested in knowing further details about investment developments taking place in the global steel industry, an Annex is provided that presents tables with detailed information on the companies that are investing and the financial amounts involved, the technologies being invested in, the ownership status of the projects and their expected starting date, as well as some qualitative comments about the projects to provide context where needed.

The results indicate that global steelmaking capacity will continue to expand, with regions that are currently net importers of steel products expected to record the largest capacity increases. Of particular importance for governments in this context will be to work towards removing market distorting policies such as subsidies that promote the emergence of new capacity or delay the closure of failing companies. The main findings of this paper are:

- Excess capacity remains high. The global steel industry's capacity to produce steel has more than doubled since the early 2000s to support growing construction and manufacturing activity, as well as to help build infrastructure particularly in emerging economies. With investment projects continuing to increase in a number of economies, and while steel consumption growth is anticipated to remain moderate, the global imbalance between capacity and demand will continue to pose risks for the industry for the foreseeable future, unless more concerted efforts are made by industry and governments to address the challenge. Global nominal steelmaking capacity is projected to increase to 2.36 billion tonnes by 2017, up from 2.16 billion tonnes in 2013. Non-OECD economies will continue to lead the capacity expansion in the global steel industry, with their share of world capacity expected to increase to 71.4% by 2017.
- Government interventions are contributing to global excess capacity. Specific concerns related to government steel policies include continued government subsidies (notably subsidies for the creation of new capacity or the maintenance of inefficient capacities) and continued approvals for new steel facilities. Governments have also noted that trade related measures, constraints on foreign investment, and the activities of government financial agencies are also contributing to global excess capacity and creating difficulties for the industry in addition to weak market conditions.

- Excess capacity is hurting the global steel industry. Excessive levels of steelmaking capacity have important implications for the steel industry, resulting in over-supply, low prices, weak profitability, bankruptcies and localised job losses. Given the global nature of the industry, excess capacity in one region can displace production in other regions, thus harming producers in those markets and creating risks for trade actions and government interventions to protect domestic industries. It can also lead to wasteful energy use and thus have negative environmental impacts.
- What should be done? In competitive economies, it is the responsibility of the steel companies themselves to identify ways to adapt to changing market conditions. The role of governments should be to allow market mechanisms to work properly and avoid measures that artificially support steelmaking capacity. Of particular importance for governments will be to work towards removing market distorting policies such as subsidies that promote the emergence of new capacity or delay the closure of failing companies, eliminating trade and investment barriers that slow the restructuring that is needed for the industry, allowing market-based investment decisions in the steel sector, and ensuring that new plants are subject to standards that protect the environment and uphold worker safety.

#### 1. Introduction

Excess capacity is one of the main challenges facing the global steel sector today. The growing gap between global steelmaking capacity and demand has led to deterioration in the financial situation of steelmakers, and has raised concerns about the longer-term economic viability and efficiency of the industry. Although excess capacity in the global steel industry has increased significantly since the financial crisis, and despite slowing demand growth in global markets, there continues to be new investment projects in many parts of the world.

On the one hand, while the opening and closure of steel plants is usually based on the commercial decisions of private companies, government interventions that support the building of new capacity or keep inefficient facilities in operation can exacerbate the problem of global excess capacity and harm the business conditions of efficient steel producers in all markets. On the other hand, policies that promote the efficient restructuring of the industry or provide assistance to workers who may be displaced by the closure of uneconomic mills can be useful tools to address the problem and promote greater stability in global steel markets.

Following the Ministerial Council Meeting on 6-7 May 2014, where Ministers stressed the need to address the issue of excess capacity in some industries such as steel, the OECD Steel Committee has deepened its discussions on capacity, and will take this work further in the next few years.<sup>1</sup> In addition to monitoring capacity developments, the Committee plans on examining government policies and their effects on global excess capacity, with an aim to reach a common understanding about which policies: i) promote a better functioning of the market and more efficient global steel industry; and ii) contribute to excess steelmaking capacity by distorting trade and competition in domestic and global markets.

This paper examines the extent, reasons and impacts of excess capacity in the global steel industry, as well as the implications of new investment projects that continue to take place at a rapid pace in many parts of the world. By focussing on new investment projects taking place in the global steel industry, this study intends to help governments and industry better understand the extent to which global steelmaking excess capacity may evolve in the future. The information on individual investment projects presented in the Annex of this paper is also provided via an online database available to the public at www.oecd.org/sti/steel.<sup>2</sup>

This Policy Paper finds that global steelmaking capacity will continue to expand, with regions that are currently net importers of steel products expected to record the largest capacity increases. Global nominal steelmaking capacity is projected to increase to 2.36 billion tonnes by 2017, up from 2.16 billion tonnes in 2013. Non-OECD economies will continue to lead the capacity expansion in the global steel industry, with their share of world capacity expected to increase to 71.4% by 2017. Of particular importance for governments in this context will be to work towards removing market distorting policies such as subsidies that promote the emergence of new capacity or delay the closure of failing companies.

The remainder of the paper is organised as follows. The next two sections briefly summarise the extent and reasons for global excess capacity. The fourth section provides an overview of steel projects currently taking place around the world, but leaves details about the types of equipment and furnaces that companies are investing in for the tables in the Annex. The final two sections summarise some of the OECD's work on the impacts of excess capacity and what should be done to address the challenge. Again, readers interested in the details of investment projects by company and region are invited to refer to the Annex or to the above-mentioned online database.

#### 2. What is the extent of global excess capacity?

The global steel industry's capacity to produce steel has increased rapidly since the early 2000s, after two decades of little growth. Most of the growth in steelmaking capacity has occurred in non-OECD economies, to support growing construction and manufacturing activity, as well as to help build the infrastructure necessary for the economic development of these emerging economies. The world's nominal steelmaking capacity is estimated to have reached 2 241 million metric tonnes (mmt) in 2014, according to the OECD Secretariat, a level that is more than twice as high as the 1 060 mmt capacity level observed in 2000. With investment projects continuing to take place in many parts of the world, nominal global steelmaking capacity is expected to climb by a further 120 mmt in the period to 2017, bringing total worldwide capacity to 2 361 mmt. At that point, non-OECD economies are expected to account for approximately 71.4% of the world's total capacity (Figure 1).



#### Figure 1. Nominal crude steel capacity in OECD and Non-OECD economies

Source: OECD Secretariat.

Whether or not excess capacity arises is a function of whether demand has kept pace with this rapid growth in supply. Although the industry is emerging from a severe cyclical downturn that was triggered by the global economic and financial crisis of 2008-2009, demand recovery has been uneven and sluggish in many economies. In 2013, crude steel demand stood at 1 648 mmt, or about 516 mmt below nominal capacity, representing one of the highest gaps in the history of the global steel industry (Figure 2). With investment projects continuing to increase in a number of economies while steel consumption growth is anticipated to remain moderate, the global imbalance will continue to pose risks for the industry for the

foreseeable future, unless more concerted efforts are made by industry and governments to address the challenge.

However, it is important to note that measures of excess capacity cannot be imputed directly from the gap between nominal capacity and demand. Indeed, it is not economic for the steel industry to run at full capacity, even when pricing is attractive and companies appear to be maximising their output. During the peak of the pre-crisis price upturn in the first half of 2008, for example, monthly global capacity utilisation did not rise above 91%.<sup>1</sup> Seasonal factors as well as the need to occasionally close down operations to refurbish steel plants and add new facilities tend to reduce the effective capacity of steel mills.

#### Figure 2. World crude steel capacity (nominal) and demand



Notes: The Secretariat assumes demand growth of 2% in 2014 and 2015. These are the most recent rates of growth forecast by the World Steel Association for world apparent steel use (October 2014 Short Range Outlook).

Sources: OECD for nominal capacity and the World Steel Association for demand.

#### 3. What are the reasons for global excess capacity?

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The main factors that contribute to capacity imbalances in the steel industry include market downturns, but also a number of government interventions and other market-distorting practices. As noted above, for most steel mills, it is normal to have periods of under-utilised capacity. When demand and prices of steel fall, profit-maximising firms should reduce production and thus leave a certain amount of capacity idle. Profits will tend to be lower because the firms still have to finance their fixed assets, including their underutilised steelmaking furnaces and rolling facilities. If the situation persists over time, however, then firms operating under normal market conditions would try to minimise their fixed costs by scaling back on capacity, thus making excess capacity a short-run phenomenon. History has nevertheless demonstrated that the adjustment process can be long and arduous in the steel industry, with some regions experiencing extended periods of excess capacity.

Monthly capacity utilisation rates are according to World Steel Association data.

On the one hand, this can be due to high exit barriers, namely the costs of closure that discourage rapid adjustments in capacity. For example, capacity closures entail high costs of dismantling the mills, potential clean-up and other environmental and labour-related costs. In the face of market uncertainty firms may choose to delay exit rather than incur such costs. Expectations about future market conditions may also be contributing to current excess capacity; for example, steelmakers in some countries are investing heavily today in new steel production facilities in anticipation of much higher demand several years from now.

On the other hand, excess capacity that persists over time can also be indicative of government actions that hinder adjustments that would normally occur in competitive markets. Due to the importance and strategic nature of the steel industry to many national economies, a tendency during market downturns is to preserve the capacity of the industry, in order to alleviate unemployment and other social problems that would otherwise occur due to capacity closures. In addition, in some large net steel-importing regions, governments are also interested in moving towards greater "self-sufficiency" in steel production in order to reduce their dependency on imports. Research by the Secretariat shows that, despite current market conditions, a large number of new projects are taking place, which will increase global crude steelmaking capacity significantly in the coming years.

In the current context, recent discussions at the OECD Steel Committee have suggested that in some regions excess capacity reflects temporary factors related to the business cycle while in other cases it reflects structural factors connected to government interventions. Specific concerns related to government steel policies include continued government subsidies (notably subsidies for the creation of new capacity or the maintenance of inefficient capacities) and continued approvals for new steel facilities. Governments have also noted that trade related measures, constraints on foreign investment, and the activities of government financial agencies are also contributing to global excess capacity and creating difficulties for the industry in addition to weak market conditions. And finally, policy measures which discourage "optimal" exit of the least productive plants may also contribute to excess capacity.

#### 4. Future investment projects in the global steel industry

#### 4.1. Brief summary of regional investment developments

Since the start of the 21<sup>st</sup> century, many blast furnaces have been built around the world, particularly in Asia (see Box 1). That region will continue to lead BF/BOF capacity expansions, supported by largescale integrated projects. As a consequence, the BF/BOF route is likely to remain the major technology for iron/steelmaking, despite the announcement of many mini-mill projects in recent years. However, this paper shows that regional differences are very large. Detailed information can be found in the tables in the Annex, while a summary of key developments by region is provided below:

- There are no capacity additions being planned in the European Union.
- In the region referred to as "Other Europe",<sup>3</sup> crude steelmaking capacity is forecast to increase to 64.4 million tonnes per year (tpy) by 2017. All of the increase in this region will occur in Turkey, where many EAF projects are taking place. In line with EAF capacity expansions, imports of scrap are expected to grow further in "Other Europe". Iron ore imports into the region are also expected to increase to some extent as some projects are intensive in iron ore/coking coal.
- In the **Commonwealth of Independent States (CIS)** region, steel mills are replacing out-dated OHFs with BOF and EAF furnaces. Numerous EAF projects have been planned, which may result in higher future scrap demand. Nevertheless, the BOF process is likely to remain the main

production process in the region. As a consequence of several investment projects, steelmaking capacity in the region is expected to reach 152.9 million tpy by 2017.

- In the North American Free Trade Agreement (NAFTA) region, the share of EAF in steel production is expected to rise due to many DRI-based mini-mill projects, supported by the shale gas boom and the relatively low natural gas prices associated with this development. DRI is expected to be an increasingly important feedstock for producers in the region. Steelmaking capacity in the region is projected to increase from 158.0 million tpy in 2013 to 163.5 million tpy in 2017.
- In Latin America, BOF's share is likely to grow in the future owing to many greenfield slab-forexport projects, even though some projects have been postponed. Also, some projects in the long products segment are under way. As a result of these investment projects, steelmaking capacity in the region is forecast to reach 77.4 million tpy by 2017.
- Although Africa is still reliant on imports to meet demand, some DRI-based mini-mill projects are expected to raise the region's self-sufficiency (domestic production as a share of demand) gradually. Steel production via the EAF route is expected to remain the major steelmaking process. Steelmaking capacity in the region is forecast to increase from 33.2 million tpy in 2013 to 40.2 million tpy by 2017.
- In the Middle East, steelmaking is expected to be predominantly EAF-based, and the preferred feedstock would remain DRI (due to natural gas availability). Many DRI-based EAF projects have been announced recently in the region, and are expected to contribute to reducing import dependency. The region's production capacity is projected to increase to 69.5 million tpy by 2017.
- In China, steel production via the BOF route is expected to continue to play a dominant role in steelmaking. However, EAF's share could gradually increase in the future, along with the increasing availability of scrap, thus affecting the balance between BOF and EAF technologies. Steelmaking capacity in the country is expected to reach 1.1 billion tpy by 2017.<sup>4</sup>
- Although EAF is still the major steelmaking process in India, BOF's share may increase significantly, supported by new investment projects that are iron ore/coking coal-intensive. The country's crude steelmaking capacity was estimated to have reached more than 100 million tpy in 2013, and is expected to continue to increase to a level of 132.7 million tpy by 2017.
- In ASEAN-6, BOF's share in the region's crude steel production is expected to increase gradually due to many BF/BOF investment projects. Therefore, iron ore/coking coal are expected to become important raw materials for the region. Scrap imports have also been increasing due to several mini-mill projects. The region's total steelmaking capacity is expected to increase to 58.8 million tpy by 2017.

	2013	2017	Changes	
	(A)	(B)	(B-A)	(B/A %)
European Union	233,6	231.6	-2.0	-0.9
Other Europe	58.7	64.4	5.8	9.8
CIS	145.9	152.9	7.0	4.8
NAFTA	158.0	163.5	5.5	3.5
Latin America	70.0	77.4	7.4	10.6
Africa	33.2	40.2	7.0	20.9
Middle East	46.2	69.5	23.3	50.5
Asia	1409.2	1552.2	143.0	10.1
Oceania	9.1	9.1	0.0	0.0
Total	2163.9	2360.9	197.0	9.1

Table 1. Change in steelmaking capacity (million tonnes)

Note: Some projects listed in the Annex tables have been announced, but are not likely to come on stream. In calculating future capacity, only those projects likely to come on stream have been taken into account.

Source: OECD Secretariat.

#### Box 1. Asia will continue to lead the capacity expansion in terms of the BF/BOF process

Since the start of the 21st century, Asia has experienced a steel mill construction boom, supported by investments in many large-sized blast furnaces (with inner volumes of more than 2000 m<sup>3</sup>). The figure below maps blast furnaces with inner volumes greater than 2000 m3 in Asia compared to the rest of the world. As a consequence, Asian pig iron production expanded rapidly over the decade, rising from 361.3 mmt in 2003 to 900.2 mmt in 2013 and accounting for 77.0% of global pig iron production in 2013. Compared with other regions, Asian integrated mills are typically more modern and have a larger capacity. The region is expected to continue to lead the capacity expansion in the integrated steelmaking route, not least since the figure below indicates a trend towards ever-larger plants in Asia, but not in ROW.



Source: OECD calculations based on data from World Steel Dynamics, China Iron and Steel Association, the Japan Iron and Steel Federation and Korea Iron and Steel Association.

#### 4.2. Regional steel investments in more detail

#### 4.2.1. Other Europe

The EAF route is common in Turkey and the country has one of the highest shares of EAF output in the world. However, the BF/BOF route has gained some importance in recent years.<sup>5</sup> Platts (2014b) recently reported that the Turkish government plans to reduce the domestic industry's dependency on scrap by providing more incentives for domestic iron ore and ferro-alloy production. This could encourage a change in the structure of steel production in favour of BOF based integrated mills. The Turkish industry aims to reach 85 mmt of steelmaking capacity and 70 mmt of steel production by 2023 (ISPAT, 2013). Major projects taking place in Turkey include:

• *Kardemir* (one of Turkey's three integrated steelmakers) has begun to fire up its new blast furnace No. 5 with an inner volume of 1 280 m<sup>3</sup> at its Karabuk works in the northern part of the country. As a result, and also due to converter upgrades, its crude steel capacity is expected to increase to 3.4 million tpy. *Habas* has just entered the flat product market in Turkey with a new hot strip mill (2.5 million tpy of capacity) and is now building an electric steelmaking complex with a capacity of 3 million tpy.

#### 4.2.2. The Commonwealth of Independent States (CIS)

In the CIS region, numerous mini-mill projects have been planned, reflecting good prospects for the construction sector at least before the recent political unrest. However, the BF/BOF route is likely to remain the main process in the region.<sup>6</sup> Between 2003 and 2013, the share of crude steel production via the EAF route has risen from 13.5% to 24.4%, according to World Steel Association data. The growth in EAFs (notably in Russia) should have a significant impact on scrap demand. Scrap demand may surpass domestic collection due to new EAFs, though some integrated producers — equipped with both BOFs and EAFs — have an option to increase the use of pig iron in their EAFs in order to reduce their dependence on scrap (Platts, 2012). Some important developments include the following:

Russian electric arc furnace steelmaking is expanding and the government expects the share of EAF production to reach 39% by 2020 (Platts, 2014c).<sup>7</sup> Between 2013 and 2014, some long product mini-mills were commissioned to meet steel demand from the growing construction sector in the country. *Abinsk Electrometallurgical Plant* and *NLMK Kaluga* commissioned their new EAF melting shops, both with a capacity greater than 1 million tpy. Furthermore, *Severstal* aimed to begin commercial-scale production at its 1 million tpy mini-mill in Balakovo (in central Russia's Saratov region) by the end of the second quarter of 2014.

#### 4.2.3. North American Free Trade Agreement (NAFTA)

In NAFTA, some steelmakers are exploring opportunities for building DRI-based plants. Several DRI plant projects have been announced in recent years to take advantage of shale gas developments. DRI provides opportunities for mini-mill steelmakers to minimize the impact of typically more volatile steel scrap markets (AMM, 2013). Growing DRI production is also likely to affect demand for substitute materials such as pig iron and scrap. EAF's share of steel production in the NAFTA region is expected to rise due to both DRI and scrap-based EAF projects. The upstream (crude) projects that are underway in the region include:

• Some DRI technology suppliers forecast DRI capacity in the United States could reach 10 million tpy by 2020 (Platts, 2014d and 2014e). On 24 December 2013, *Nucor* commissioned its first DRI facility with a capacity of 2 million tpy in Louisiana. Moreover, the European

integrated steelmaker *Voestalpine* is investing USD 740 million to build a 2 million tpy DRI plant in Texas. Also, *Big River Steel* broke ground on its USD 1.3 billion EAF-based steel mill in Osceola, Arkansas on 24 September 2014.

• In Mexico, some mini-mill projects are underway to meet growing demand from the construction sector. For example, *Talleres y Aceros (Tyasa)* has been testing its new EAF with a capacity of 1.2 million tpy in Orizaba. In addition to this, *Altos Hornos de México (Ahmsa)*'s 1.5 million tpy EAF, (part of its USD 1.5 billion *Fenix* program) is expected to be commissioned in 2014. *Gerdau Corsa*'s new EAF plant is expected to come on stream in 2015.

#### 4.2.4. Latin America

In Latin America, many greenfield slab-for-export projects have been announced by major mining groups. However, some projects have been postponed due to reasons such as the global economic slowdown, weak markets and logistical problems. Most of the capacity expansion projects in Latin America will occur in Brazil, where some new slab projects are currently in progress. Some projects in the region are starting in the long products segment to meet demand for construction steel. Major projects occurring in Brazil are provided below.

Future slab maker Companhia Siderúrgica do Pecém (CSP) is a joint venture between Brazilian mining group Vale (50%) and Korean steel producers Dongkuk Steel (30%) and POSCO (20%). The project is expected to begin producing 3 million tpy of slabs in December 2015. CSP's first export shipment is scheduled for March 2016 through the Port of Pecém, in north-eastern Ceará State. Apart from this project, another two slab projects — Acos Laminados do Para plant (ALPA) and Companhia Siderurgica Ubu (CSU) — have been planned in the country.<sup>8</sup>

### 4.2.5. Africa

Currently, Africa is aiming to lower its dependence on imports through various upstream projects. Although Egypt and South Africa have played a key role in supplying steel products in Africa, the region still has a low self-sufficiency rate. To increase its self-sufficiency and press forward with industrialisation, many upstream projects (mainly DRI based mini-mill plants) have been planned. These projects are concentrated in North Africa and have the objective of supplying steel for housing and infrastructure projects. The DRI-EAF route has been the preferred steelmaking technology in the region due to its lower capital expenditure requirements and because the region has a shortage of steel scrap.<sup>9</sup> Projects taking place in some of the major producing countries in Africa include:

- Many DRI-EAF projects are underway in Egypt. However, the country is experiencing a shortage in natural gas allocation, which has delayed the launch of a number of steelworks.<sup>10</sup> Ezz Steel, the largest steel producer in Egypt and North Africa, is expected to commission its 1.8 million tpy DRI plant and a 850 000 tpy EAF by end-2014. Moreover, *Beshay Steel*, the second largest steelmaker in Egypt, is building a 1.76 million tpy DRI and 1.3 million tpy EAF. *Egyptian Steel* is building an EAF-based steelworks in Beni Suef and Sokhna that will each have a capacity of 850 000 tpy of square billet.
- Algeria is one of the fastest steel-consuming markets in Africa due to government plans to build infrastructure facilities (OECD, 2014). With domestic steelmakers not producing enough to meet growing demand for steel, the government announced in mid-2011 that it would invest considerable amounts over five years to boost domestic steel production (Oxford Business Group, 2012). Most of the capacity additions will be implemented by state-owned companies. For example, the governments of Qatar and Algeria have decided to enter into a joint venture, the

Algerian Qatari Solb Company. Moreover, state-owned Sider and ArcelorMittal aim to boost capacity at their Annaba plant.

• In South Africa, ArcelorMittal South Africa is a major producer, accounting for more than 70% of the country's steel production (Kumba Iron Ore, 2011). However, large scale steel plant projects have been announced in the country recently. China's state-owned Hebei Iron & Steel (Hegang) announced plans to build a 5 million tpy greenfield steelworks to be supplied by output from its iron ore mine in the country.<sup>11</sup> On 10 September 2014, Hegang signed a memorandum of understanding with China-Africa Development Fund and the South African government's Industrial Development Corp. for developing Hegang's steelworks project in South Africa. This steel plant will be China's largest steel mill outside the Chinese mainland (WSJ, 2014).

#### 4.2.6. Middle East

With oil-exporting countries within the Gulf Cooperation Council aiming to diversify their economies (IMF, 2014), steel demand from downstream industries is expected to expand in the region. Many projects have been announced recently in the Middle East, often with the objective to reduce import dependency.<sup>12</sup> However, these developments have led to concerns that the industry's expansion might lead to over-supply issues in the region, particularly in the square billet market (Metal Expert, 2014a). Steelmaking is predominantly EAF-based, and the preferred feedstock is DRI, owing to plentiful (and thus relatively low priced) natural gas availability in the region.<sup>13</sup> DRI is generally expected to remain a major feedstock in EAF steelmaking, and the EAF process, in turn, is expected to continue to play a dominant role in steelmaking route in the region. Major projects taking place in the Middle East include:

Iran aims to expand its steelmaking capacity to 55 million tpy by 2025 (Reuters, 2014). Most new plants will be based on the DRI-EAF route. The country has significant resources of iron ore deposits and low-cost natural gas, and these factors are affecting the choice of raw materials used to produce steel in Iran. Although eight new steelworks have been under construction by state-owned *IMIDRO* since 2006, and numerous projects have been announced, a number of projects were put on hold because of financing constraints caused by economic sanctions.<sup>14</sup> Currently, *Middle East Mines Industries Development Holding Company (MIDHCO)* is involved in three greenfield projects in the country: *Butia Steel Company (BISCO)*, *Sirjan Iranian Steel Company (SISCO)* and *Zarand Iron & Steel Company (ZISCO)*.

In Oman, growing steel demand (driven by construction activity) is encouraging domestic producers to increase their capacities and is attracting new investors to the steel industry. Scrap consumption is expected to grow due to capacity expansion projects, while some companies plan to install DRI modules because domestic scrap collectors may not be able to supply enough material for several years (Metal Expert, 2014b). An example of capacity expansion projects can be found in *Jindal Shadeed Iron and Steel's* project, which involves a 2 million tpy EAF steelmaking complex, including a DRI module. *Sun Metals* and *Moon Iron & Steel (MISCO)* also plan to install EAF facilities.

Saudi Arabia is currently experiencing fast-growing demand for electricity driven by population growth and industrial development (NOREF, 2013). Although a shortage in natural gas allocation and electricity generation capacity has delayed the launch of a number of steelworks in the country, many EAF projects are currently underway to balance billet imports.<sup>15</sup> For example, *Saudi Iron & Steel Company*, the largest integrated steelmaker in the Middle East, started trial runs at its sixth electric arc furnace of 1 million tpy in February 2014. Also, *Arkan Steel* and *Al Atoun Steel* are building EAF-based plants.

#### 4.2.7. China

Currently, the Chinese government is making efforts to restructure the steel industry, increase its efficiency and remove some excess capacity (EY, 2014). In October 2013, China's State Council released

a Guideline (the Guideline to Resolve Serious Overcapacity), targeting the closure of 80 million tpy of steel capacity by the end of 2017 (OECD, 2014), in addition to addressing overcapacity problems in the cement, aluminium, plate glass and shipbuilding industries. Targets of the plan include reasonable capacity utilisation, improved industrial concentration and structure, higher development quality, efficient environmental protection, a normal level of profit margin and asset-liability ratio, and a long-term effective mechanism in self-regulating capacity.

The Guideline to Resolve Serious Overcapacity includes supply-side management measures, notably the prohibition of new steel projects, the removal of existing illegal capacity, the enhancement of the entry threshold, and phasing out the backward capacity by raising prices of power and water. Financial support could be provided if difficulties linked to capacity shutdowns and unemployment arise. In addition, broad demand side measures as well as systematic management measures will also be used to address overcapacity. On the demand side, efforts will involve the construction sector's use of steel and improving the standards of steel. Systematic management includes encouraging mergers and acquisitions of enterprises to increase industrial concentration and reduce over-competition, among other efforts.

Since July 2014, China's Ministry of Industry and Information Technology (MIIT) has revealed lists of steelmakers that should remove obsolete capacities.<sup>16</sup> Also, provincial governments were requested to submit, by 30 June 2015, their targets for dismantling outdated and excess capacities in 2015 and during the 13<sup>th</sup> five-year (2016-2020) economic development plan (MIIT, 2014).<sup>17</sup>

Some important coastal steelworks have been put into operation over the last few years in China: *Anshan Iron & Steel* commissioned its 6.5 million tpy Bayuquan works in Liaoning Province in 2008, while *Shougang Jingtang United Iron & Steel* completed its 9.7 million tpy works in Hebei Province in 2010. Many projects have been announced in resource-rich inland regions. For example, Xinjiang's rich raw material resources have attracted many steelmakers to invest in new capacities in the region.<sup>18</sup> Although the BOF production process will remain the dominant production process in China in the years to come, the EAF share may increase gradually along with increasing availability of domestic scrap, but the process is likely to take some time (Japan Metal Bulletin, 2014).<sup>19</sup> Despite a slowdown in China's capacity growth rate compared to previous years, large steelworks that focus on the production of flat products are being built in the country, namely:

*Baosteel* could commission the first of two 5 050 m<sup>3</sup> blast furnaces at its Zhanjiang steelworks (Guangdong Province) by the end of September in 2015. The entire steelworks is expected to be commissioned by June 2016. <sup>20</sup> On 26 September 2014, *Wuhan Iron & Steel Group* set up the *Fangchenggang Steel Company Limited* that would be responsible for the operations management of its steel project in Guangxi Province. The new integrated steelworks is designed to be able to produce 9.2 million tpy of crude steel with two 5 200 m<sup>3</sup> blast furnaces. *Shandong Iron and Steel Group* plans to launch its 8.5 million tpy Rizhao steelworks in Shandong Province by the end of 2016, with two 5 100 m<sup>3</sup> blast furnaces.

• Other important projects are either underway or being planned. In China's Inner Mongolia, *Baotou Iron & Steel* plans to build two 4 000 m<sup>3</sup> blast furnaces at a new integrated flat steel works, which will have a crude steel capacity of 5 million tpy. Also, on 4 July 2014, a memorandum of understanding for a total investment of USD 3.3 billion was officially signed between *Chongqing Iron & Steel (Chonggang)* and *POSCO*. The two companies will cooperate to construct a plant using *POSCO*'s FINEX technology.

#### 4.2.8. India

Based on forecasts for steel consumption, India's authorities expect that steelmaking capacity may have to increase to 300 million tpy by 2025-26 in order to meet future demand (Government of India, Ministry of Steel, 2013). In order to reach that level of capacity, the industry may need to invest around 12 trillion rupees, according to some news sources, with investment being concentrated in the mineral-rich states of Odisha and Jharkhand (Platts, 2014i). New investment projects that are iron ore/coking coal intensive should have significant impacts on the balance between BOF and EAF production in the future. Despite the declining trend over the last 10 years, BOF's share in Indian production is expected to grow significantly as many BF/BOF projects have been announced or are currently being built in the country.<sup>21</sup> Many important BF/BOF projects are taking place in India, amongst which:

• Some upstream projects are underway by state-owned companies that have already launched their strategic plans.<sup>22</sup> National Mineral Development Corp (NMDC) has delayed commissioning of its 3 million tpy integrated steel plant with a 4 506 m<sup>3</sup> blast furnace, currently under construction at Nagarnar in the eastern state of Chhattisgarh. Steel Authority of India Ltd. (SAIL) is also building two blast furnaces with inner volumes of 4 060 m<sup>3</sup> at IISCO Burnpur works and Bhilai works. Also, India's leading private company, Tata Steel, expects to commission the first phase of its 3 million tpy integrated mill by March 2015, including a 4 300 m<sup>3</sup> blast furnace.

# 4.2.9. Association of Southeast Asian Nations (ASEAN)

Although the Association of Southeast Asian Nations (ASEAN) has traditionally been a large net importer of steel, a steel mill construction boom has been taking place in the region, as well as in other East Asian economies that export to ASEAN.<sup>23</sup> Many steel projects should support the increase in ASEAN's self-sufficiency rate. However, these developments have led to concerns that the industry's expansion might lead to over-supply problems (OECD, 2013a). DRI and scrap have been the major feedstock for steel production in the region because production takes place primarily in EAF-based facilities. However, BOF's share in the region's production is expected to increase gradually, thus affecting the balance of steelmaking technologies and, ultimately, raw material demand. Below is a brief summary of the major projects taking place in ASEAN.

- In Indonesia, investment in new steelmaking capacity is taking place in view of relatively favourable demand prospects. Examples of investment projects include *PT Krakatau POSCO*, which formally began operating its first blast furnace (the size of which is 3 950 m<sup>3</sup>) on 23 December 2013 in Cilegon. The plant has a capacity of 3 million tpy. This project is part of Indonesia's Master Plan to accelerate economic development (OECD, 2013b). *PT Krakatau POSCO* will make a decision on whether to proceed with the second stage expansion in 2015. Moreover, *PT Gunung Raja Paksi* is building a 2 500 m<sup>3</sup> blast furnace with a capacity of 1.5 million tpy in West Java, along with a sinter plant and a coke battery.
- In Viet Nam, strong steel demand growth has attracted many foreign investors and numerous projects have been planned. According to the government of Viet Nam, capacity is targeted to reach 40 million tpy of steel billets by 2025 (Ministry of Industry and Trade of Vietnam, 2013). Currently, some BF-BOF projects are underway in the country. For example, *Formosa Ha Tinh Steel Corp* has already started construction, with the first phase of a 10.5 million tpy plant to be fully commissioned by end-May 2017.<sup>24</sup> In addition, state-owned *Vietnam Steel Corporation (VSC)* has commissioned its new steel plant. Also, *POSCO Specialty Steel* aims to officially inaugurate its 1 million tpy EAF in Ba Ria-Vung Tau province either in December 2014 or slightly thereafter.<sup>25</sup>

#### 5. Concluding remarks

Excessive levels of steelmaking capacity have important implications for the steel industry, often associated with over-supply, low prices, weak profitability, bankruptcies and localised job losses. Recent work conducted by the OECD has examined the financial health of the steel industry and established a link between excess capacity and profitability. It has shown that the financial performance of the industry is perhaps worse now than it was during the global steel crisis of the late 1990s, in large part due to the significant excess capacity that exists today.

Given the global nature of the industry, excess capacity in one region can displace production in other regions, thus harming producers in those markets and creating risks for trade actions and government interventions to protect domestic industries. It can also lead to wasteful energy use and thus have negative environmental impacts.

Increased trade frictions are already visible amongst trading partners today. Subsidies and government support measures that promote investment in steelmaking facilities or sustain companies in distress that would otherwise shut down are a major source of this trade friction. Subsidies that encourage steelmakers to keep production running at high levels, even under weak market conditions, have had significant effects on trade, with unfair trade practices such as dumping having resulted in injury to the industries of other economies.

In competitive economies, it is the responsibility of the steel companies themselves to identify ways to adapt to changing market conditions. That is, businesses are best placed to decide on when to invest in new capacity or when to scale it back when market conditions change. The role of governments should be to allow market mechanisms to work properly and avoid measures that artificially support steelmaking capacity.

A key priority, therefore, is to identify appropriate policy approaches to address excess capacity. In this context, of particular importance for governments will be to work towards removing market distorting policies such as subsidies that promote the emergence of new capacity or delay the closure of failing companies, eliminating trade and investment barriers that slow the restructuring that is needed for the industry, allowing market-based investment decisions in the steel sector, and ensuring that new plants are subject to standards that protect the environment and uphold worker safety.

The OECD Steel Committee has continued to deepen its discussions on capacity, and plans to take this work further in its programme of work and budget for 2015-2016. For example, the Committee's programme of work calls for analyses of government policies and their implications for global excess capacity developments, as well as maintaining a database of ongoing investment projects, including the sources of finance for steel projects and any government support measures provided. At a later stage, the Committee may consider organising a high-level meeting to facilitate discussion on excess capacity issues at a higher political level. A key aim of this work will be to establish common perspectives on ways to avoid practices that create harmful trade and competitive distortions, and which can lead to a long-lasting positive impact on the effective functioning of the global steel market.

#### NOTES

- 1. An important item discussed at the OECD Ministerial Council Meeting (MCM), which was held in May 2014 and chaired by Japan, was about resilient economies and societies. The MCM Chair's Summary made specific reference to steel: "Ministers also discussed positive shifts in employment and production patterns, the future of manufacturing as well as entrepreneurship, including the role of young firms and SMEs, and stressed the need to address the issue of excess capacity in some global industries, such as steel, in relation to supporting measures."
- 2. Readers who identify changes in project characteristics are encouraged to contact the Secretariat.
- 3. This comprises Albania, Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Norway, Serbia, Switzerland, and Turkey.
- 4. Recent reports suggest that China's actual crude steelmaking capacity could be higher than estimated. A Platts (2014a) report notes that Chinese capacity reached 1.11 billion tpy in 2013 and will increase to 1.14 billion tpy in 2014, according to China Iron and Steel Association.
- 5. For example, Isdemir blew-in its No. 4 blast furnace with an inner volume of 2 500 m<sup>3</sup> in 2011. In 2013, scrap imports decreased by 12.0% to 19.7 mmt compared with 2012, while iron ore imports were up by 3.5% to 8.1 mmt, according to data from the World Steel Association.
- 6. According to the World Steel Association data, the share of BOF in the CIS region has grown to 67.7% in 2013, i.e. by 10 percentage points from its level 10 years earlier.
- 7. The Russian steel industry is aiming to replace all of its OHF facilities by 2015 (Russian Steel Consortium, 2013). Ukraine expects to complete the replacement of its OHF technology by 2018 (SE UEX, 2014).
- 8. These projects do not seem however to be progressing as expected.
- 9. The BOF to EAF ratio in South Africa is high (59:41), according to the World Steel Association data. This reflects the important role of iron ore and coking coal in the country.
- 10. Egypt has decided to remove natural gas subsidies, and some observers expect the price of gas used by cement, iron and durable good factories to increase by 30-75% (Al-Monitor, 2014). This measure will affect those steelmakers operating DRI modules that use natural gas. Observers have noted that scrap imports could increase due to natural gas shortage (Platts, 2013a).
- 11. Hegang already owns iron-ore mining assets in South Africa, having participated in a consortium established to buy *Rio Tinto's* 57.7% interest in *Palabora Mining Company* (Creamer Media, 2014).
- 12. Observers have noted, however, that the fast growth in power consumption may curb future capacity growth (Markaz, 2013).
- 13. According to data from the World Steel Association, the region's share of crude steel production via the EAF route has risen significantly to 92.4% in 2013 (9.3 percentage points higher than 10 years earlier).

- Although the Iranian government is making efforts to attract private investors. See Platts (2014f) for more on this.
- 15. Saudi Arabia's government aims to boost power-generation capacity by more than 50% from less than 60 gigawatts (GW) to approximately 91 GW by 2020 (ABB, 2014).
- 16. In July 2014, MIIT announced the first list of steelmakers that should remove obsolete capacities in 2014, including iron and steel and a total of 25.45 million tpy of ironmaking capacities and 22.60 million tpy of steelmaking capacities should be removed by end-2014. Furthermore, MIIT released the second list on 18 August 2014 and the third list on 25 August 2014.
- 17. This information is available at: http://cys.miit.gov.cn/n11293472/n11295023/n11297848/16159494.html
- 18. Observers have noted that the central government's keenness to develop western China's economy caused a rush of new steel projects in Xinjiang, which may lead to oversupply (Platts, 2013b).
- 19. China Iron and Steel Association (CISA) expects EAF output will be 25-30% of the total crude steel production by 2025 (Platts, 2014g).
- 20. The Guangdong Provincial Development & Reform Commission decided to remove 4.5 million tpy of crude steel capacity in the province by 2017, in order to make room for the Zhanjiang steelworks (Platts, 2014h).
- 21. India has faced several barriers to capacity expansions. For example, the acquisition of land, the granting of environmental and forest clearances, the availability of raw materials and the lack of infrastructure are major challenges (OECD, 2014).
- 22. SAIL aims to increase its steelmaking capacity to 50 million tpy by 2025. On the other hand, RINL plans to expand capacity of its Visakhapatnam steelworks to 12 million tpy by 2020.
- 23. For example, in East Asian economies, operations at large-scale blast furnaces were started in both Korea and Chinese Taipei in 2013.
- 24. The commissioning of the No. 1 blast furnace with an inner volume of 4 350 m<sup>3</sup> is expected to be delayed until November 2015 due to the protests which occurred in May 2014. When fully implemented by 2020, this steelworks will be the largest integrated steel plant in the ASEAN region (OECD, 2013a).
- 25 Ferrous scrap imports have been increasing, notably in Viet Nam, while Australia has become a major scrap exporter to ASEAN.
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### **PUBLIC VERSION**







# BRAZILIAN STEEL INDUSTRY Faces its worst crisis

Brazil Steel Institute held the 26th Brazilian Steel Conference and ExpoSteel, from July 12th to July 14th, gathering approximately 500 delegates, amongst representatives of steel industry, government, metalworking industry, banks, consulting companies, academies, parliament members and the media. Marcio França, Vice-Governor of the State of São Paulo, Armando Monteiro Neto, Minister of Development, industry and Foreign Trade and senator Ricardo Ferraço attended the opening ceremony.

With national economy recession and the adverse situation of steel's international market, the lectures and debates throughout the Conference evidenced the difficult situation of the Brazilian steel industry while facing its worst crisis. The following issues were also widely discussed:

The combination of structural and circumstantial factors drastically reduced the activities of intensive steel sectors, causing a major impact in the internal demand of steel products and deepening the persistent process of national deindustrialization;

This situation is worsened by direct and indirect steel imports, mostly from China, under unfair commercial conditions which does not comply with OMC rules. In 2015, the Brazilian steel industry may register the 2nd consecutive year of decreasing consumption, reaching the level of 2007;

On the structural plan, factors known as Brazilian Cost, which are beyond companies' control and cause an impact on their results, increasingly reducing the competitiveness of steel and manufacturing industries. As a consequence of this troubled scenario, Brazilian steel industry is now operating with less than 70% of its capacity utilization, which led to the stoppage/deactivation of equipment, discharge of employees and postponement of investments;

The biggest issue faced by steel industry over the world is the production overcapacity amounting to 719 million tons, which has affected prices and margins all over the world. The biggest impact of such overcapacity comes from China, a country with government subsidies giving rise to undue cost benefite:

The export of steel products from China may reach 100 million tons this year, four times the consumption of steel in Brazil. China exports to Latin America increased 69% in the last two years, which corresponds to the loss of 4 million direct or indirect jobs within the countries of this region.

A response and effective commercial defense must protect domestic markets from unfair and predatory practices that the country is suffering with the increase of direct and indirect imports of steel. The priorities now are equality and balance in commercial relationships with other countries;

The resumption of development in Brazil must be led by the industry, with the implementation of policies which actually encourage foreign trade as a short-term alternative. The agenda of this growth, for post-adjustment period, must prioritize structural problems in the country, through massive investments in infrastructure, correction of tax asymmetries and adoption of interest in international levels and competitive excharige rates.

# Steel sales in Brazil to drop over 15% in 2015

Brazil Steel Institute review for 2015 forecasts a 3.4% reduction in the crude steel production compared to 2014, totaling 32.8 million tons. The internal sales of steel products are expected to drop 15.6% this year in relation to the previous year, totaling 18.3 million tons. Estimates show that the Country's apparent steel consumption will be of 22.3 million tons, representing a 12.8% reduction compared to 2014 and a return to the 2007 level, of 22.1 million tons. Imports should account for 4.0 million tons, representing a 0.8% increase.

The deterioration of the national political and economic scenario was decisive for the performance worsening of the Brazilian steel industry and its main consumer segments this year. The automotive, civil construction, machinery and equipment sectors, accountable for nearly 80% of the steel consumption in Brazil have been recording successive result drops. Due to the current scenario, the domestic market shrunk, increasing the national industry's longtime struggle of competing against imported products due to the so-called Custo Brasil (Brazil Cost).

Despite the unfavorable conditions of the international market, due to a 700 million ton overcapacity, exports have been increasing in the last few months due to intercompany operations of supply of semi-finished products to feed plants in Europe and in the US and due to the sector's emergency measures to further reduce the usage level of installed capacity.

As a consequence of the current level of capacity use from June/2014 to June/2015, 11.2 thousand collaborators of the sector were dismissed, production units were shut down or deactivated and US\$ 2.1 billion in investments were suspended.



26<sup>th</sup> Brazilian Steel Conference

# Latin American steel industry stands against unfair trade from China

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### "New Global Economic Order under construction"

Professor of Practice in Global Management at INSEAD and co-author of the book "From Global to Metanational: How Companies Win in the Knowledge Economy", along with colleagues Yves Doz and Peter Williamson, José Santos opened the second day of the Conference. The Portuguese academic, who has acted as an executive in multinational companies for over twenty years, gave a special conference of the New Global Economic Order. The lecturer highlighted that a new global order is currently under construction and that a new management is imperative so that companies and countries can adapt to the new times. He also stated that in these new times, companies from countries with large domestic markets, such as China and Brazil, have advantage over their competitors, for they "act at home", with full awareness of the market and the current laws. Santos also highlighted that businessmen should be alert to the limited resource management capacity and to the uncertainties brought by new, emergency situations.

On July 13, Brazil Steel Institute published a joint letter written by class entities from Mexico, Chile, Peru, Colombia and Argentina, and supported by the United States and the European Union in the newspaper O Estado de São Paulo. This letter, addressed to their respective governments, warned them against the threats of unfair imports from China. The publication, made concomitantly by all entities in their countries, seeks to raise the awareness of the respective governments to adopt emergency measures against the Chinese unfair competition and its acknowledgment as a market economy in 2016. The letter was published during the 26th Brazilian Steel Conference, when part of the discussions addressed the impacts of the Chinese industrial policy.

# Chinese impact in global dynamics

A special conference coordinated by the president of the Board of Brazil Steel Institute, Benjamin M. Baptista Filho, the Chinese economist Haiyan Wang, Managing Partner of China India Institute and Adjunct Professor of Strategy at INSEAD, covered the impacts of the Chinese economy in the industry's global dynamics. Despite stating that by 2020 the Chinese GDP should reach 16 trillion dollars, with a 5 trillion dollar increase in the next five years, reaching the Brazilian per capita income, Wang believes that the country's economy is more unbalanced. She mentioned challenges that must be overcome, such as the ageing of the population and the slowdown of the real estate market. On the steel production overcapacity, Wang highlighted existing conflicts between the country's central government, that wants to reduce production in 80 million by 2017, and province administrators, that fear unemployment and population dissatisfaction increases. "Among the challenges faced by the Chinese steel industry are the need to reduce overcapacity, a search for greater energy savings and environmental protection", she reminds

### ExpoSteel 2015

### Inauguration of ExpoSteel 2015



This year, the Brazil Steel Institute went back to the Conference and Exhibition format, a model that has consecrated the Brazilian Steel Conference & ExpoSteel as the most important event of the steel and metallurgy industries in Brazil. The business fair gathered 20 exhibitors, major players of the sector, among steel producers, equipment suppliers and class entities. The event was sponsored by ArcelorMittal, CSN, Gerdau, Techint Organization, ThyssenKrupp CSA, Usiminas, Aperam, Banco do Brasil, CBMM, Firjan, Fiemg, Sebrae, Sinobras, ABDI, Air Liquide, BNDES, CNI, Green Metals, Vallourec, Villares Metals and Deloitte.



### **Knowledge Space**

Visitors of the ExpoSteel, a business fair that gathered 20 stands during the three days of the 26th Brazilian Steel Conference, had the opportunity to visit the Knowledge Space, a novelty of Brazil Steel Institute for this year's event. During the second and third days of the event, around 200 people watched free lectures presented by exhibitors and guests of Brazil Steel Institute. The water crisis and the sustainability of the steel construction were among the topics covered.



Marcio Sequeira - Architect



Edson Kater - Odebrecht



Panel 11 World Steel Industry / The Big Issues, André B. Gordau Jonannpeter - Board Member of the Brazil Steel Institute / CEO of Gendrau, Edwin Basson - Director-General of the World Steel Association, Nick Sowar - Deloitte Global Metals Sector Leader, Stephen Duck - CRU's Senior Consultant of Raw Materials, Peter Poppinga -Vale's Executive Director of Perrous <u>Minerals</u>

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Panel 2: The Steel and the Green Economy -Francisco Gaetani – Executive Secretary of the Ministry of Environment Walter de Castro Medeiros - Board Member of the Brazil Steel Institute / CEO of ThyssenKrupp CSA, Carlos Melles – Federal Deputy, Rômel Erwin de Souza - Board Member of the Brazil Steel Institute / CEO of Usiminas, Germano Mendes de Paula – Professor of the Institute of Economy of the Federal University of Uberlandia

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**26th Brazilian Steel Conference** 

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Panel 3: Brazilian Steel Industry - The Big Issues, Marco Polo de Mello Lopes – Executive President of the Brazil Steel Institute, Sergio Leite - Board Member of the Brazil Steel Institute and Commercial Vice President of Usiminas, Jefferson de Paula - Board Member of the Brazil Steel Institute, and CEO of ArcelorMittal Acos Longos Brasil, José Velloso – Executive President of Abimaq, João Carlos GonçalVes – General Secretary of the Trade Union Council.

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Panel 4: The Brazilian Economy, Octavio de Barros – Chief Economist of Bradesco, Delfim Netro – Economist, Mailson da Nobrega – Economist, lorge Gordau Johannpeter - Board Member of the Brazil Steri Institute,

### STATISTICS

The sales of steel products to the Brazilian market in June 2015 showed a 9.0% drop in relation to June 2014, reaching 1.5 million tons. The 2015 accumulated sales, of 9.7 million tons, showed a 12.9% drop in relation to the same period in the previous year. It's worth mentioning in 2015, during the same period of reference, the sales had a steeper decline than that of 2014 when compared to 2013.

In relating to the national apparent consumption, the results of June 2015 were of 1.8 million tons of steel products, totaling 11.7 million tons in the period from January to June 2015. These volumes represented 7.5% and 10.4% drops, respectively, in relation to the same periods the year before.

As regards to imports, the registered volume of June was 330 thousand tons (US\$ 283 million), thus totaling 2.1 million tons of imported steel products in a year, a 4.3% increase in relation to the same period in 2014.

Despite the adverse conditions of the international Market, the exports of steel products reached 1.2

million tons in June, amounting to 571 million dollars, mainly due to intercompany semi-finished supply operations to feed plants in Europe and in the US, and also due to emergency actions of the sector to avoid further reduction of the level of use of installed capacity. With this result, the exports of June 2015 amounted to 5.7 million tons and 3.3 billion dollars, a 46.1% increase in volume and 12.7% increase in value, when compared to the same period in the previous year.

The Brazilian crude steel production in June 2015 was of 2.8 million tons, a 2.1% increase when compared to the same month in 2014. As regards to laminates, the June production, of 1.8 million tons, showed a 6.3% drop when compared to June of the previous year. With these results, the accumulated production in the first six months of 2015 totaled 17.1 million tons of crude steel and 12.0 million tons of laminates, a 2.0% increase and a 4.8% drop, respectively, when compared to the same period in 2014.



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### STEEL MARKET DEVELOPMENTS

Q4 2015



### STEEL MARKET DEVELOPMENTS - Q4 2015

### STEEL MARKET DEVELOPMENTS

### Q4 2015

by Anthony de Carvalho

OECD, Paris

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

#### Note for Israel

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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Concluding remarks

#### STEEL MARKET DEVELOPMENTS – Q4 2015

#### RECENT MARKET DEVELOPMENTS IN THE GLOBAL STEEL INDUSTRY

#### Summary

The outlook for the steel sector has, unfortunately, weakened further in recent months, reflecting not only cyclical factors such as the slowdown in world economic growth but also growing structural challenges such as excess capacity. With the global business cycle expected to remain subdued over the next few years, resolving the structural factors that are inhibiting the industry from reaching its full potential will remain a key priority going forward.

This document provides a short overview of recent market developments and provides a few thoughts about the risks of oversupply. Some key developments discussed in this report include:

- The economic outlook has weakened, and the OECD has recently lowered its forecasts for world economic growth, reflecting slowdowns and recessions in some major emerging market economies.
- Steel market sentiment has deteriorated over the past weeks and months, in line with falling or slowing growth of many economic activity indicators that are linked to steel demand, such as manufacturing activity and fixed investment, in many steel-producing countries.
- Monthly steel consumption figures have been very negative for some major steel-consuming economies during the course of 2015. In the first eight months of 2015, a monthly indicator of consumption of hot-rolled steel products in major economies declined by more than 4% from its level in the same time period one year earlier.
- Steel production growth has slowed sharply. Following growth of 1.2% in 2014, in the first 10 months of 2015 world crude steel production contracted by 2.5% in year-on-year terms. The production decline has been broad-based, affecting almost all regions of the world. In many economies, local producers are adjusting output in response to heightened import competition.
- Despite significant production and demand declines this year, world steel exports have increased by more than 4% in January-July 2015 relative to their level a year earlier. A large number of trade cases have been introduced recently, but import levels are increasing in regions such as NAFTA, the EU, South America and parts of Asia.
- The combined effect of weakening global steel demand, growing imports in many economies, and decreases in steelmaking costs has led to a very sharp decline in steel prices this year. An index of the average world steel price was down by 25% in November 2015 compared to its January 2015 level. In November, the world average hot-rolled coil price stood at USD 332 per tonne, down from USD 480 in January 2015.
- Prices of steelmaking raw materials have also fallen sharply, reflecting oversupply issues in some markets. In November 2015, the spot price of iron ore to China fell to USD 48 per tonne. Coking coal and ferrous scrap prices have fallen by 30% and 43%, respectively, since the start of 2015.

- Despite falling costs in recent years, the profitability of the steel industry is under severe pressure. Most steelmakers are experiencing negative cash flows and, as a result, an increase in debt, particularly short-term debt.
- In October, the World Steel Association lowered its forecasts for world steel demand in 2015 and 2016. Global apparent finished steel use is now projected to decline by 1.7% in 2015, before increasing modestly by 0.7% in 2016. The downward revisions reflect a steeper demand contraction in China than was previously anticipated and a significantly weaker outlook for the CIS economies, South America and many developed countries this year. Not all economies are slumping, however, with Africa, India, the Middle East and Southeast Asia expected to register solid growth in demand.
- Demand weakness coupled with further increases in steelmaking capacity over the next few years

   in an environment of already low steel prices, unsustainably weak profitability, and mounting debt suggests that adjustment pressures are likely to grow significantly in the short to medium term.

#### **Recent developments**

#### The economic outlook has weakened

Recent months have been characterised by increased volatility in equity markets, weakness in a number of emerging market currencies, and significant declines in commodity prices. Emerging market economies have experienced further slowdowns in growth, which is weighing on global industrial production and trade (see Figure 1). In the advanced economies, investment and productivity growth is subdued, constraining the momentum of economic recovery in those countries. According to the OECD's latest Economic Outlook (released on 9 November 2015), world GDP growth is projected to remain modest in the next few years, despite a gradual improvement from 2.9% in 2015 to 3.3% in 2016 and 3.6% in 2017. The forecasts for global growth were revised downwards significantly compared to the projections made in June 2015. (See Table 1 for the latest GDP growth forecasts.)

#### Figure 1. World industrial production, trade, and trade price

% change from one year earlier



Source: Netherlands Bureau for Economic Policy Analysis (CPB).

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In the euro area, the modest economic recovery has continued, with GDP increasing at an annual rate of around 1.5% so far this year. In the second quarter of 2015, GDP increased by 0.4% from the previous quarter (1.5% year-on-year), supported mainly by net exports – facilitated in turn by the depreciation of the euro since late 2013 – and consumer spending. However, fixed and inventory investment declined. In the third quarter of 2015, economic growth slowed slightly to 0.3%, with private consumption providing the main boost to GDP. The latest OECD forecasts suggest that the recovery will strengthen, supported by accommodating monetary policy, lower oil prices and an easing of the pace of budget tightening. Euro Area GDP is expected to grow by 1.8% in 2016 and 1.9% in 2017. Although the overall economy is growing at a moderate pace, of relevance for steel is that economic activity indicators suggest weaker activity in manufacturing than in services.

In the U.S., after a sharp slowdown in economic growth in the first quarter of 2015, the expansion has resumed, with growth of 3.9% in the second quarter and 1.5% in the third quarter, both at annual rates. Industrial production growth has gradually declined during 2015, from a year-on-year rate of 4.5% in January to 1% in June and only 0.3% in October 2015. Employment growth has also moderated this year, despite a decline in the unemployment rate to 5% in October 2015. The OECD forecasts point to solid GDP growth of 2.5% in 2016 and 2.4% in 2017, supported by the expansion of household demand.

Japan experienced strong GDP growth in the first quarter of 2015, but then the economy contracted by 0.2% in the second quarter (quarter-on-quarter) and again by 0.2% in the third quarter. Renewed weakness in the economy reflects the slowdown in demand from other Asian economies and sluggish consumption. However, the OECD forecasts point to an acceleration in GDP growth to 1% in 2016, before slowing to a 0.5% growth rate in 2017 due to the planned consumption tax hike.

Many emerging economics are currently facing economic headwinds, reflecting weaker commodity prices, tighter credit conditions, and lower potential output growth. GDP growth in China has remained at around 7% in the first three quarters of 2015, with some rebalancing in the economy towards services. Growth in manufacturing activity has been moderating since early 2013, declining from a pace of 8% to 5-6% in recent months, while services growth has been gathering momentum. The OECD is forecasting moderating GDP growth in China to 6.8% in 2015, and a gradual decline to 6.2% in 2017 as activity rebalances towards consumption and services.

Elsewhere, Brazil and Russia have experienced recessions and are not projected to return to positive growth in annual terms until 2017. On the other hand, growth prospects are more favourable for India, with GDP growth forecast at above 7% in the coming years, assuming continued implementation of structural reforms.

	2014	2015	2016	2017
World <sup>1</sup>	3.3	2.9	3.3	3.6
United States	2.4	2.4	2.5	2.4
Euro area	0.9	1.5	1.8	1.9
Germany	1.6	1.5	1.8	2.0
France	0.2	1.1	1.3	1.6
Italy	-0.4	0.8	1.4	1.4
Spain	1.4	3.2	2.7	2.5
Japan	-0.1	0.6	1.0	0.5
United Kingdom	2.9	2.4	2.4	2.3
Mexico	2.1	2.3	3.1	3.3
Korea	3.3	2.7	3.1	3.6
Canada	2.4	1.2	2.0	2.3
Turkey	2.9	3.1	3.4	4.1
Australia	2.7	2.2	2.6	3.0
China	7.3	6,8	6.5	6.2
India <sup>2</sup>	7.3	7.2	7.3	7.4
Russia	0.6	-4.0	-0.4	1.7
Brazil	0.2	-3.1	-1.2	1.8
Indonesia	5.0	4.7	5.2	5.5
South Africa	1.5	1.5	1.5	2.0
OECD 1	1.9	2.0	2.2	2.3
Non-OECD 1	4.7	3.7	4.2	4.6
World real trade growth	3.4	2.0	3.6	4.8

### Table 1. OECD Economic Projections, November 2015

Table 2. Real GDP growth (year-on-year), %

Notes: 1/ Moving nominal GDP weights using purchasing power paritles. 2/ Fiscal years starting in April.

Source: OECD Economic Outlook, November 2015.

#### Steel market sentiment

Steel market sentiment has weakened significantly in the past several months, in line with the general downturn in the global market. Purchasers of steel are wary of increasing their inventories, amidst rapidly falling prices of steel, and many indicators that are linked to steel demand, such as manufacturing activity and fixed investment, have either fallen or their growth has slowed in many steel-producing economies.

One indicator of general sentiment is the global Steel Purchasing Managers' Index (PMI), compiled monthly by Markit Economics. The index fell below the threshold reading of 50 (that separates contraction from expansion) in March 2015 for the first time since late 2012, and has continued to trend downwards since then (Figure 2). The decline has been most pronounced in Asia, with a PMI reading of 47.7 points in October 2015. Market sentiment has been stronger in the U.S. and Europe, however with considerable volatility in the indices.

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Figure 2. Steel Purchasing Managers' Indices (PMIs)

Trend



Other indicators of market sentiment include the TSI survey of steel demand expectations. The survey asks industry participants to assess changes in steel demand in their regions over the next three months. Figure 3 displays the survey results over the most recent five-week period. They indicate that expectations are currently quite negative, with the share of respondents expecting production to remain unchanged or to decline fluctuating from 81% to 95% in recent weeks. The latest reading from 11 November suggests that more than 40% of respondents expect North American and Asian demand to contract in the coming three months, while in Europe most respondents expect demand to remain unchanged.



### Figure 3. TSI survey of steel demand expectations (next three months)

Source: Platts McGraw Hill Financial.

#### Steel consumption

Monthly steel consumption figures have been very negative for major steel-consuming economies during the course of 2015. Figure 4 presents the year-on-year per cent change in the combined consumption of hot-rolled products for eight of the world's largest steel-consuming economies in Asia, the CIS region, Europe, North America, and South America, which together account for approximately 72% of global steel demand.<sup>1</sup> The data suggest a strong deceleration in consumption growth during 2014, with growth turning negative in the final quarter of 2014 and the downturn gathering momentum during 2015. In the first eight months of 2015, the monthly consumption indicator for the major steel-consuming economies declined by slightly more than 4% in year-on-year terms.

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The economies are Brazil, China, Germany, India, Japan, Korea, Russia and the United States.



Figure 4. Consumption of hot-rolled steel products, major economies

Note: Combined consumption of the following economies: Brazil, China, Germany, India, Japan, Korea, Russia and the United States.

Source: ISSB.

The global demand downturn is largely due to significant steel consumption declines in China, Brazil and Russia. The steel demand downturn in China reflects the ongoing economic rebalancing process that is taking place. Although Chinese GDP growth slowed only to 6.9% in the third quarter from 7% in the first and second quarters, domestic steel consumption declined by 5.8% during January-September 2015, according to the National Bureau of Statistics.

The decoupling of China's steel demand from GDP growth reflects the diminishing role of industrial activity relative to services. Figure 5 shows that the services sector overtook industry as the major driver of economic growth around 2012, and its share of GDP has continued to increase since then. Thus, despite still relatively strong macroeconomic growth in China, economic activity indicators relevant for steel (e.g., industrial production, fixed asset investment, and investment in the property market) have registered slowing growth rates during 2015.



Figure 5: Value added by sector, China

Other emerging economies are also adjusting to slower consumption growth. In Brazil, the steel sector is facing a severe crisis, with the Brazilian Steel Institute recently indicating that consumption fell by 14% year-on-year in the first nine months of 2015. This weakness is largely due to slumping durable goods manufacturing, particularly motor vehicle production, which is depressing steel consumption and offsetting the positive impact of construction activity associated with the summer 2016 Olympic Games to be held in Rio de Janeiro. The steep devaluation of the real, however, has provided a boost to Brazil's exports, particularly of semi-finished products.

In Russia, although the economy is in a deep recession, activity in the steel industry has held up fairly well. This is partly due to the rouble's significant depreciation, which has helped support Russian exports and production of steel. However, construction activity, which accounts for around two-thirds of Russia's steel consumption, and new car sales have declined significantly in 2015, thus depressing domestic steel demand considerably. Large pipeline projects, on the other hand, are providing some support to demand.

India, on the other hand, has better steel consumption prospects than other major emerging market economies. Expectations of consumption growth are optimistic, in view of the ongoing economic reform process, infrastructure development, the implementation of "Make in India", and smart city initiatives. However, recent demand developments have disappointed and the financial performance of domestic producers has deteriorated.

Across the OECD, steel demand developments have been supported particularly by the strength of the automotive sector. However, renewed economic weakness and subdued investment activity are clouding the outlook, and domestic producers are struggling to adjust to greater import competition. In the EU, apparent steel consumption growth has gained some momentum in 2015, with growth picking up to 5.5% in the second quarter. The demand improvement has been supported by improving production activity in key downstream sectors, particularly the automotive industry, and rebounding construction activity. In NAFTA, the slump in oil prices is negatively impacting demand for steel from energy companies (an

Source: World Development Indicators.

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important steel-using sector in the region) as exploration companies reduce capital expenditures. In Japan and Korea, the manufacturing industry is struggling with the effects of weaker export markets and the Chinese industrial slowdown, which is constraining consumption particularly of flat steel.

### Steel production

Growth in world crude steel production has decelerated significantly in the past three years. Following growth of 5.8% in 2013 (to 1.65 billion tonnes), production growth slowed to 1.2% in 2014 and has turned negative in 2015. In the first 10 months of 2015, crude steel production declined by 2.5% compared to the corresponding time period one year earlier (Table 2). The world production decline appears to have been gathering some momentum during the course of this year, with the rate of contraction reaching 3.1% in October 2015. These developments imply that world production is likely to register an annual contraction in 2015 for the first time since 2009.

The production decline has been broad-based in 2015, affecting almost all regions of the world. North American production has declined the most, in relative terms, reflecting a sharp, 8.8% steel output decline in the United States as several mills reduced output or idled furnaces in response to the market downturn. Canadian output is down by slightly more than 1%, reflecting weakening steel consumption in the energy and mining industries in the wake of declining commodity prices. Mexican steel production is also down about 1% so far in 2015, as local producers adjust output in response to heightened import competition.

Production in the EU fell by 1.8% in 2015, mainly due to output declines in the UK, Italy and France, against almost flat production in Germany and positive growth in Poland. Steel output in the UK declined by a steep 10.4% in 2015, reflecting plant closures in the latter part of the year. The Italian steel industry is in a serious recession, with steel output declining by 7.1% in 2015, marking the fourth consecutive year of contraction. French output fell by 7.2% in 2015.

The so-called Other Europe region and the CIS economies have also experienced steep production declines, with Turkish steel output down almost 7% and Ukrainian production down 18% so far in 2015. Turkey is becoming a net importer of steel this year, with exports facing greater competition on world markets. Ukrainian production has suffered from infrastructure damage in the eastern part of the country and difficult economic conditions. Russian output has also declined in 2015, albeit only slightly, due to the economic recession.

In Asia, production is in decline in most of the region's economies – at a rate of 2.1% in China, 5.1% in Japan, 3.6% in Korea and 3.6% in Chinese Taipei – with the exception of India where production has increased by 3.3% in the first 10 months of this year. Chinese production is on track to decline in 2015 for the first time in more than three decades. However, the market is still in oversupply, with many producers operating at losses and prices declining significantly this year. With production running at an annualised level of 810 mmt, the Chinese steel industry is operating at a capacity utilisation rate of only around 71%.

In South America, the industry is in recession in the two largest producing economies, Brazil and Argentina, where production has fallen by 1.3% and 7.2%, respectively, so far in 2015. Brazilian mills have increased exports, but the considerable domestic demand downturn has led to production cuts. A number of temporary capacity closures have occurred in Brazil as low market prices have depressed the industry's profitability. Like other parts of the world, South American steel producers are also adjusting to greater import competition. Although steel output in many smaller producing economies, such as Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela, has increased during 2015, the region overall has registered a decline of 1.6% in steel production during the first ten months of 2015.

In the Middle East, production growth has slowed following several years of rapid expansion, stemming in part from the oil market downturn which has lowered income growth and, consequently, sales of steel. In the first 10 months of 2015, the region's steel output was roughly unchanged compared to the same time period in 2014, with growth in Iran and the United Arab Emirates being offset by falling production elsewhere in the region. Declining oil revenues have translated into reduced government expenditure on construction projects in some countries, which have been a major driver of steel demand in recent years.

African steel production in the first 10 months of 2015 was approximately unchanged from the same time period in 2014, as strong production growth in South Africa was offset by falling production in Egypt and Libya. However, the South African production figures are still estimates at this point, and the local industry is facing very uncertain conditions and possible plant closures. Energy shortages and political disturbances are contributing to production declines in northern Africa.

2 N	Level, th	ousand mmt	% change, year-on-year	
A. T. A.	Oct-15	JanOct. 2015	Oct-15	JanOct. 2015
EU	14,754	141,586	-3.8	-0.7
Other Europe	2,996	28,663	3.0	-5.5
CIS	8,284	84,568	-0.7	-4.9
North America	9,606	94,553	-6.1	-6.8
South America	3,961	37,281	-2.5	-1.6
Africa	1,096	11,781	-1.5	-0.2
Middle East	2,267	23,175	-8.9	-0.1
Asia, of which:	90,737	919,542	-3.0	-2.1
China	66,124	675,104	-3.1	-2,2
Oceania	501	4,835	-2.5	4.8
World	133,640	1,345,955	-3.1	-2.5

Table 2. World	crude stee	production devel	lopments in 2015

Source: World Steel Association.

#### World steel trade

Despite significant production declines in most regions of the world, the November 2015 report by ISSB shows that world steel exports have increased by more than 4% in January-July 2015 relative to their level in the same time period last year. However, much of the growth observed so far this year reflects a so-called "carry-over effect" from 2014. That is, although monthly export volumes have levelled off during 2015, they had increased significantly during the course of 2014, thus yielding still strong year-on-year growth rates in recent months.

The monthly data from ISSB, taking into account internal EU and other inter-regional trade, point to global steel exports of 453 thousand tonnes, annualized, in the first half of 2015, up from 433 thousand tonnes in 2014 (Figure 6, Panel A). As a result of these developments (production declining while exports are increasing), the world steel export ratio, i.e. exports as a share of production, has increased from around 25% at the start of 2014 to almost 30% in July 2015. Excluding intra-EU trade, the overall trends are roughly similar, with total export growth of 4.3% in January-July 2015, in year-on-year terms, and an increase in the world export ratio from around 19% in early 2014 to 22% in July 2015 (Figure 6, Panel B).
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#### Figure 6. World exports of steel: monthly volume (mmt) and export ratio (% of production)

Table 3 presents export developments during 2015 in the six largest steel-exporting economies. The latest month for which trade data are available varies across economies, ranging from July to September 2015. World export growth has been supported mainly by China, whose exports in 2015 (until September) amount to an annualised 106.7 mmt, up 16.6 mmt or 18.4% from the 2014 annual figure. Chinese exports to the ASEAN region, Korea, the EU, India, and the Middle East are up significantly this year. Other major steel-exporting economies have seen their annualised export volumes decline in 2015, at rates ranging from almost 1% in Japan to more than 18% in Ukraine. Global exports from these economies to the Middle East have generally held up well, but have declined to many other regions.

The increase in global exports amid weak domestic demand conditions has led to a flurry of trade cases in recent months, in many economies and regions around the world [DSTI/SU/SC(2015)10]. Despite these trade measures, steel imports are up in, e.g., NAFTA (almost 3% in January-August 2015, year-on-year), the EU (9.2% in January-July), South America (4.4% in January-July) and in Asia excluding China (6.3% in January-July). The increase in supply has led to significant price declines in all regions of the world, analysed below.

#### Table 3. Steel export developments in 2015 (annualised to latest month available in 2015)

Exporter	2014	2015 annualised (latest month)	Change (2015/2014) volume	Change (2015/2014) %
China (Sep)	90,103	106,674	16,571	18.4
Japan (Sep)	41,247	40,943	-304	-0.7
EU, external trade (Jul)	36,557	35,272	-1,285	-3.5
Korea (Sep)	31,803	30,811	-992	-3.1
Russia (Aug)	26,939	26,002	-937	-3.5
Ukraine (Aug)	21,469	17,521	-3,948	-18.4

Largest steel exporting economies, thousands of metric tonnes

*Note*: The definition of steel used in this table is HS 7206 to 7302, 7304-7306, and 7307.21-7307.99 excluding some forgings (7326.19), points and switches/crossings (7302.30 and 7302.90), some forged cold finished sections (7216.69 and 7216.99), some cold formed sections (7216.61 and 7216.91), welded shapes and sections (7301.20) and steel castings (7325.99). This definition differs somewhat from the total steel exports figures provided by ISSB in Figure 6 above. *Source*: OECD calculations based on data from ISSB.

#### Steel prices

The combined effect of weakening global steel demand, growing imports in many economies, and decreases in steelmaking costs has led to a very sharp decline in world steel prices (Figure 7). The world steel price index,<sup>2</sup> which has been trending downwards since the second quarter of 2011, fell to 135 points in November 2015, down 25% from its level in January 2015. World hot-rolled coil (HRC) prices have fallen 31% and rebar prices 17% from their levels at the beginning of 2015. In November 2015, the world average HRC price stood at USD 332 (down from USD 480 in January 2015) and the world rebar price at USD 388 per tonne (down from USD 470 in January 2015).

#### Figure 7. World steel prices (latest month November 2015)



Source: Platts Steel Business Briefing

#### Steelmaking costs

Prices of steelmaking raw materials have also declined, helping to bring steel production costs down significantly over the past several years (Figure 8). The iron ore market is currently in oversupply, reflecting reduced demand due to falling world production of steel and supply increases particularly from Australia. Low-cost iron ore miners in Australia, the largest producer of iron ore, are increasing supply to gain market share, in spite of the weak price environment. For example, exports of iron ore from Australia increased by nearly a quarter last year, while exports from Brazil, the second largest producer in the world, increased by only 4%. In November 2015, the spot price of iron ore (CFR to China), fell to USD 48 per tonne. The iron ore price has thus fallen 29% from its level at the beginning of the year and 63% compared to January 2014.

2.

The world prices referred to here are publicly available on the Platts Steel Business Briefing website: www.steelbb.com.

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The coking coal and scrap markets have been slumping for almost five years now, and prices have fallen sharply this year. In November 2015, the coking coal (spot) and scrap prices were down by 30% and 43%, respectively, relative to their January 2015 levels. Contract negotiations for coking coal deliveries from Australia to Japanese steel mills for the fourth quarter of 2015 concluded with another price reduction, of 4% to USD 89 per tonne. Scrap price declines have been reinforced by falling prices of substitute materials, such as direct reduced iron.

#### Figure 8. Key raw material price indicators



Source: Commodity Research Unit.

In line with these developments, a recent report by World Steel Dynamics notes that the world cost curve for hot-rolled band, based on data for 189 steel plants, has declined since 2011, with the median plant facing operating costs of around USD 380 per tonne in October 2015 (Figure 9).<sup>3</sup> The median producer, therefore, currently faces higher operating costs than the world average price for hot-rolled coil. In addition, the cost curve appears to have become flatter in recent years, implying less diversity in costs across steel producers and, thus, also profitability challenges for a large segment of the industry given current steel prices.

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See World Steel Dynamics, Truth and Consequences report # 75, 19 November 2015.



Figure 9. World steel cost curves for hot-rolled band (USD/metric tonne)

The profitability of the steel industry has come under intense pressure, as discussed in detail in document DSTI/SU/SC(2015)12. Profit reports across steel companies illustrate a sector that is clearly underperforming most other industries. The average pre-tax operating margin of 757 publically trade steel companies from October 2013-September 2014 was 5.99%, well below the 9.3% average operating margin for the world's 42 410 publicly traded firms (see Figure 10). Figure 10 also shows the steel sector's profitability ranking relative to all sectors in given economies. Globally, steel's average operating margin was ranked  $79^{th}$  out of 96 listed industries. If only manufacturing firms are included, steel is ranked amongst the very least profitable industries.

Operating margins across economies and regions reveal a similar pattern, with the steel sector reporting some of the lowest pre-tax operating margins of all listed sectors. China's steel industry has one of the lowest operating margins compared not only to the steel industries of many other economies but also relative to other domestic industries. China's steel industry is ranked 85<sup>th</sup> out of 94 Chinese service and manufacturing sectors, but is last amongst all domestic manufacturing industries. The European steel industry also appears to be facing a troubled profit environment, and is ranked 90<sup>th</sup> out of 96 European service and manufacturing industries. As discussed in DSTI/SU/SC(2015)12, most steelmakers are experiencing negative cash flows, and as a result an increase in debt. Moreover, there is an increasing reliance on short-term debt, which suggests that firms are either facing difficulties in obtaining long-term loans or are using short-term debt to cover their operational activities.

Source: World Steel Dynamics.



Figure 10. Pre-tax operating margins (%) and steel industry's economy-level profitability ranking

Note: The data were uploaded in January 2015, before annual 2014 annual reports were available. The figures below the names of each economy denote the steel industry's ranking in the profitability of all sectors (manufacturing and services) in that particular economy or region.

Source: Demodaran online at http://pages.stern.nyu.edu/~adamodar/New\_Home\_Page/data.html.

#### The steel market outlook: demand weakness and oversupply

The three-year period from 2014 to 2016 is expected to be characterised by exceptionally slow global steel demand growth. Forecasts for global demand growth have been reduced significantly since the Steel Committee last met in May 2015. According to the October 2015 forecasts of the World Steel Association, world steel demand is now projected to decline in 2015 for the first time since 2009. Global finished apparent steel use is forecast to decline by 1.7% to 1 513.4 million metric tonnes (mmt) in 2015, before increasing modestly by 0.7% to 1 523.4 mmt in 2016 (see Table 4). The previous forecasts, released in April 2015, had indicated positive demand growth of 0.5% and 1.4% in 2015 and 2016, respectively. The downward revisions reflect a steeper demand contraction in China than was previously anticipated and a significantly weaker outlook for the CIS economies, South America and many developed countries this year.

	20	014	201	5 (f)	201	6 (f)
	Volume	% change	Volume	% change	Volume	% change
European Union (28)	148.0	5.0	149.8	1.3	153.1	2.2
Other Europe	36.9	0.1	40.1	8.6	40.6	1.3
CIS	56,1	-4.6	49.9	-10.9	49.9	0.0
NAFTA	144.8	11.4	140.8	-2.7	143.7	2.1
Gentral and South America	48.8	-4.7	45.2	-7.3	46,1	2.0
Africa	36.6	3.6	38.5	5.1	40.9	6.2
Middle East	51.9	4.5	53.9	4.0	56.3	4.3
Asia and Oceania	1016.8	-0.9	995.1	-2.1	992.8	-0.2
China	710.8	-3.3	685.9	-3.5	672.2	-2,0
World	1539.9	0.7	1513.4	-1.7	1523.4	0.7
World (excl. China)	829.1	4.5	827.5	-0.2	851.3	2.9

Table 4. Latest forecasts for regional apparent steel use by the World Steel Association

Millions of tonnes of finished steel

Source: World Steel Association's Short Range Outlook, released in October 2015.

Not all economies are slumping, however, and some will contribute positively to global steel demand growth. For example, Africa and the Middle East, are projected to register solid steel demand growth of 4-6% in 2015-16, although political instabilities and oil market weakness present risks for demand in these regions. India and emerging economies in Southeast Asia will also enjoy solid demand growth, supported by economic reforms and rising household incomes, continued infrastructure building and expanding manufacturing activity. Demand is expected to increase moderately in the European Union over the next two years, and at a higher rate relative to the world average. However, this follows several years of weak recovery and even by 2016, EU demand is expected to still be around 25% lower than the pre-crisis level observed in 2007.

Overall, then, the global demand outlook is very weak, despite some pockets of growth in several emerging market economies. Demand weakness coupled with further increases in steelmaking capacity over the next few years - in an environment of already very low steel prices, unsustainably weak profitability, and mounting debt - suggest that adjustment pressures are likely to grow in the short to medium term. How this adjustment will occur is extremely difficult to predict, but some thoughts on possible channels of adjustment are described below.

As described in the document on world steelmaking capacity developments [DSTI/SU/SC(2015)8], given the large number of investment projects that are underway, global capacity is expected to increase from 2 321 mmt in 2014 to 2 418 mmt in 2017. The corresponding annual capacity additions amount to 42 mmt in 2015, 39 mmt in 2016 and 16 mmt in 2017. Not all of that nominal capacity is likely to result in equivalent increases in production due to differences between effective and nominal capacity additions eventually turns into steel production (71.9% being the actual global capacity utilization rate in 2014), translates into additional production volumes of 30 mmt in 2015, 28 mmt in 2016 and 11 mmt in 2017. If only 50% of the new capacity is used to make steel, then the corresponding additional production volumes would amount to 21 mmt, 20 mmt, and 8 mmt in 2015, 2016 and 2017, respectively. Obviously, a number

#### STEEL MARKET DEVELOPMENTS - Q4 2015

of assumptions can be made about potential output additions, and these are merely two benchmarks for purposes of the exercise.

Figure 11 compares the additional production increases (using the two aforementioned assumptions) with global demand changes. Here, global demand is in crude steel equivalent, and forecasts are generated by using the percent changes in demand for finished steel use, as projected by the World Steel Association in October 2015. The current forecast for demand suggests a decline in the volume of steel consumed in the world from 1 663 mmt in 2014 to 1 646 mmt in 2016, in other words by a cumulative 17 mmt during the period. Under either assumption of capacity use, the potential supply increase exceeds demand by 49-59 mmt in 2015 and by 8-17 mmt in 2016. The cumulative potential oversupply in 2015 and 2016 thus ranges between approximately 57 and 75 mmt (equivalent to more than twice the annual production of the entire Middle East), under the simplistic assumptions made above.





Volume changes in mmt

間 Production (71.9% assumption) 節 Production (50% assumption) 圖 Consumption

Note: The 71.9% and 50% assumptions refer to the assumed utilization rates of the capacity additions. Consumption forecasts are based on forecasts by the World Steel Association released in October 2015. Source: OECD calculations.

This wedge between supply and demand will have to be worked out, either through price changes, quantity (demand and supply) adjustments or capacity closures. Or, perhaps more likely, the adjustment might occur through a combination of these factors. The immediate reaction will likely be further downward pressure on steel prices. Some producers may ignore price signals and decide to maintain production at high levels, with the excess supply worked out through higher exports to, and dislocated production and employment in, trading partner economies. However, should prices remain below unit costs of production, such producers would eventually face mounting losses, and trade actions by trading partners would eventually dampen demand for their output.

In view of the financial difficulties already facing the industry, further price and profitability declines would likely encourage the economically weakest firms to close plants, with negative consequences on possibly thousands of displaced workers. Alternatively, this scenario could lead to calls for government support and other interventions to preserve the viability of inefficient domestic steel producers, but these market distortions would only increase the risks of closure for efficient producers elsewhere and prolong the steel industry's recession. They would also lead to further escalation of trade actions to shield domestic producers from government-created distortions in the market. The oversupply situation has already led to significant changes in steel trade flows. Figure 12 shows the projected cumulative steel capacity and consumption changes by region during 2015 and 2016. In some regions, capacity is growing in line with expanding steel consumption, which is the case in the Middle East, Africa and Other Europe. In other regions, however, capacity and consumption are expected to move in opposite directions, suggesting potential trade disruptions in the future in response to domestic supply-demand imbalances. Export competition could increase significantly, especially in the Asian region where the potential oversupply situation appears particularly acute according to Figure 12.



Figure 12. Steelmaking capacity and steel consumption changes by region in 2015 and 2016

Source: OECD calculations.

#### **Concluding remarks**

In summary, the outlook for the steel industry has weakened significantly, due to cyclical factors associated with sluggish global economic activity and industry-specific structural problems such as overcapacity. It appears that adjustment pressures are growing significantly and will have to be worked out in the coming years. There are many ways in which the industry can adjust, but one possible near-term scenario involves further price and profitability suppression, production declines resulting in low capacity utilisation rates across the board, and possibly plant closures amongst the least efficient firms. There will be growing social and human costs associated with the current market downturn, and governments should prepare effective programmes to help steel workers, who are laid off in the process, adapt to these changes. Alternatively, government interventions may help the industry "muddle through" the crisis, but these would be expected to lead to more market distortions that would eventually create even more severe adjustment challenges in the longer term.

# **EXHIBIT 10**

#### UPDATE 1-China's steel capacity likely to grow this year -industry ministry | Reuters



## UPDATE 1-China's steel capacity likely to grow this year industry ministry

\* China's crude steel capacity at 1.16 bln T

\* 2,037 new steel projects under construction

\* Steel exports expected to stay at high levels (Adds details, background on sector)

By Ruby Lian and David Stanway

SHANGHAI, Feb 5 Crude steel capacity in China, the world's top producing country, Is likely to grow this year despite difficult market conditions as new projects are coming onstream, the Ministry of Industry and Information Technology (MIIT) said on Thursday.

Long-standing overcapacity, slower growth in demand and tighter credit have forced many Chinese steel mills to produce at a loss or at low profitability.

"Generally, oversupply in the steel sector is unlikely to improve this year, exports will drop slightly, steel prices will stay at low levels and steel mills' profitability may not be positive," MIIT said in a report on its website (www.mlit.gov.cn).

Investment in the ferrous metals smelting and processing industry fell 5.9 percent last year but remained at a relatively high level and there are still 2,037 new steel projects under construction.

China's crude steel capacity reached 1.16 billion tonnes at the end of 2014, with its production accounting for 49.4 percent of global output, MIIT said.

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India (Date

Some analysts expect capacity to increase by only about 10 million tonnes this year.

Despite the removal of an export rebate for boron-added steel products from this year, steel exports are expected to stay at elevated levels due to a continued supply glut at home and competitive prices, the ministry sald.

The China Iron & Steel Association has forecast domestic crude steel output would fall 1.1 percent to 814 million tonnes this year, after rapid expansion over the past decade, as a slowing economy has hit demand for commodities.

China's apparent steel consumption fell 4 percent to 740 million tonnes last year, and steel demand is unlikely to improve much as Beijing is shifting its economic growth model and slowing fixed asset investment.

In order to minimise their risks on loans, banks have largely cut credit to Chinese steel mills since last year, leading to shutdowns and bankrupticles at some companies.

The debt-to-asset ratio for large steel mills dropped 0.8 percentage points to 68.3 percent last year but was still 11 percentage points higher than in 2007 when the industry experienced a boom. (Editing by Alan Raybould)

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#### China's annual steel consumption drops for first time in three decades | Reuters



Thu Jan 22, 2015 6:09am EST

# China's annual steel consumption drops for first time in three decades

BEIJING



A labourer welds steel bars at a construction site of a new subway station in Hefei, Anhui province, April 29, 2014. REUTERS/STRINGER

China's apparent crude steel consumption fell for the first time in three decades in 2014, data from an industry association showed, a further indication of how the country's economic slowdown Is hurting industrial demand.

A decline in the use of steel in China, which is both the top consumer and producer of the alloy, will dent iron ore prices that have already been rolled by a global oversupply.

Spot rates of the steelmaking ingredient are currently mired near a 5-1/2 year low \$65.60 per tonne.

China's apparent crude steel consumption fell 3.4 percent from a year ago to 738.3 million tonnes in 2014, according to calculations published by the China Iron and Steel Association (CISA) on Thursday.

Official data shows China's power output growth fell to a 16-year low last year, while coal output likely dropped for the first time in more than a decade.

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#### China's annual steel consumption drops for first time in three decades | Reuters

Struggling with weak demand as economic growth slowed to 7.4 percent in 2014, the lowest since 1990, Chinese steel producers turned to exports, which according to CISA rose 64.5 percent to the equivalent of 84.4 million tonnes of crude steel last year.

Overseas sales got a further boost last year as exporters took advantage of a loophole that allowed them to gain tax rebates by adding tiny quantities of boron to their products. That loophole has since been closed.

CISA said in a report published on its website that around 40 percent of exports in 2014 contained boron, and the decision to cancel the rebate this year will have "a certain impact" on the domestic market. (www.chinaisa.org.cn)

Amendments to China's Environmental Protection Law, which came into effect on Jan. 1, will raise production costs in an industry already trying to survive on profit margins of less than 1 percent in 2014, it added.

CISA does not foresee any major improvements in the domestic steel market going into 2015, with weak demand and excess supply still weighing on prices. Steel output in China could be approaching its peak, CISA has previously said.

China's 2014 steel output rose 0.9 percent to a record 822.7 million tonnes over the year, data showed.

"Affected by overcapacity, it is unlikely there will be any turnaround in oversupply in the steel product market or any big recovery in prices," CISA said.

(Reporting by David Stanway; Editing by Richard Pullin and Himani Sarkar)

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## FINANCIAL TIMES

Last updated: May 25, 2015 4:33 pm

## Europe steps up fight over cheap steel imports

By Henry Sanderson

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Steelmakers in Europe are counting on stronger protective measures in the fight against cheap imports of steel, especially those from China and Russia, in the latest sign of an escalating trade spat.

This month, the European Commission said it would investigate imposing anti-dumping measures on cold rolled flat steel products from Russia and China, that is seen as a

welcome boost for its domestic steelmakers, at least in the short term.

Complaints from Europe's steel industry reflect a rising tide of protectionism against the backdrop of slowing global economies and the industry's failure to cut production and therefore stem a growing supply glut.

Europe has already introduced a number of other anti-dumping measures on various steel products over the past year, and the latest move represents a ratcheting up of the pressure on cheap imports that follows US actions.

"It appears there is a very different tone toward steel imports coming from the European Commission right now," says Michael Shillaker, analyst at Credit Suisse.

The commission's measure will offer relief for European steel companies, which are being forced to compete with lower prices from Chinese and Russian exports.

Weak domestic demand and excess capacity in China pushed the country's exports up 50 per cent to a record 93.8m tonnes last year, while a much lower rouble has made Russia's steelmakers far more competitive. While a weakening euro has weighed on import demand, it is still attractive pricing for China's steelmakers.

#### 3/29/2016

For example, although differentials have come down, at  $\leq$ 415 a tonne, domestic hot-rolled coil in Europe was at a  $\leq$ 53 premium compared to export prices from China in February, according to data from the Steel Index.

Rising protectionism will mean the steel markets will become more regionalised and driven by local supply and demand balances, say analysts. "You have less material from imports which will mean a more stable steel market," says Seth Rosenfeld, analyst at Jefferies.

Renewed EU action is seen helping companies such as ArcelorMittal, the world's largest steelmaker, and this month Bank of America Merrill Lynch upgraded the stock to a "buy" rating, on improving margins and benefits from trade protection.

Earlier this month the EU imposed anti-dumping duties on certain types of electrical steel from China, Japan, Russia, South Korea and the US. That came after



the EU said it would impose anti-dumping duties on cold-rolled stainless steel from China and Taiwan in March.

Analysts say that marks a change of tack by Europe, which has been less aggressive in filing trade actions compared with the US.

Over the past seven years, the commission implemented trade barriers for steel in 14 cases, whereas the US implemented trade barriers in 43 cases, according to Jefferies. US companies such as US Steel are vocal in calling for further action.

Beyond such a short-term boost, analysts say what is really needed is a global cut in overcapacity, including by steelmakers in Europe. Only about 5 per cent of Europe's capacity has been cut since the financial crisis, almost entirely by ArcelorMittal, according to Mr Rosenfeld.

Weakening global demand has led to lower margins and significant excess steel plants in Europe, with an estimated 80 per cent of capacity used last year. But companies are reluctant to take on the costs of closing plants and losing market share and governments have also been reluctant to let steelmakers cut production and eliminate jobs in an economy barely expanding.



#### 3/29/2016

"There is significant overcapacity in Europe as in many other places," according to John Kovacs, an analyst at consultancy CRU. "The steel industry has traditionally been the first to be protected by governments."

The problem for Europe is also not just about China.

It is likely China's steel exports will still need a place to land. While the country is targeting a reduction of 80m tonnes of overcapacity by the end of 2017, that is unlikely to be enough given the state of domestic steel demand, which fell for the first time since the 1990s last year.

"China is caught with all this capacity, there's always an incentive to keep on producing and offload the material rather than cut production and lose out to a competitor," says Jeremy Platt, analyst at steel consultancy MEPS. "Because there's so much excess capacity in China it's going to take a long time to get to a normal level."

The tariffs will probably lead to a further widening of the price difference between Chinese and European steel products. As China looks to export elsewhere, prices in those destinations will also fall.

This will mean that while Chinese imports to Europe may decline, steel from other countries could rise. When the US set anti-dumping duties on steel tubes from China in 2010, tube imports from Korea and Vietnam grew substantially "even though the latter hosted hardly any manufacturing capacity," according to HSBC analyst Thorsten Zimmermann.

"Defending against global steel overcapacity is like a whack-a-mole game," says Mr Rosenfeld. "You hammer it down in one place, and then it pops up in another. In one sense protectionist policy only serves to redirect steel imports from one region to another."

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# Excess capacity and risks of trade friction cloud the outlook for the global steel industry

# Statement from Risaburo Nezu, Chairman of the OECD Steel Committee 12 December 2014

The Committee:

- Held a <u>workshop</u> in conjunction with the Committee meeting, which focussed on emerging market and policy issues affecting trade in steelmaking raw materials;
- exchanged views on excess capacity in the global steel sector, including its implications for the health of the industry
  and the role of policy followed by governments;
- noted that numerous new steel plants continue to be built around the world, many supported by government
  interventions, accentuating the extent of the excess capacity challenge, which should be addressed with a sense of
  urgency;
- discussed the collection of data on support measures and challenges related to the measurement of effective capacity and agreed on future work on these issues;
- · expressed concerns about trade frictions in steel and raw materials trade; and
- exchanged views on potential policy measures to improve steelmakers' energy efficiency.

#### Steel demand growth is expected to be moderate

Following growth of 5.8% in 2013, global steel production growth has decelerated during the course of 2014. In the third quarter of 2014, world steel production increased by 1.6%, year-on-year, to 1 620 mmt in annualised terms, slowing from rates of 2-2.5% in the first two quarters. Chinese steel production increased by 1.9% in the third quarter of 2014, reaching 812 mmt in annualised terms. In the rest of the world, steel production was 807 mmt, in annualised terms, up 1.4% compared to the third quarter of 2013.

In 2013, global steel demand grew by 3.8%, but is expected to grow more slowly in 2014 and in 2015 with yearly growth rates of about 2%, according to the World Steel Association. The weakened growth momentum reflects a considerable deceleration in China's steel demand growth and weakening consumption growth in other major emerging economies. However, in the developed world, the recovery remains potentially on track and should gain strength in certain economies in 2014, but not enough to offset the sluggishness in the emerging world, which accounts for over 70% of world steel use. For 2015, the picture is more optimistic for emerging economies in general, but China will continue to show low growth.

In line with these developments, the November 2014 forecasts of the World Steel Association indicate that world steel demand is expected to reach 1 562 mmt by the end of 2014 and 1 594 mmt by the end of 2015. Apparent steel use in developed economies is expected to increase by 4.3% in 2014 and 1.7% in 2015, marking a turnaround following the 0.2% demand contraction recorded in 2013. In emerging markets, consumption growth is expected to slow down to 1.7% in 2014, from a rate of 3.7% in 2013, and then pick up again in 2015 with a growth rate of 4.7%. Growth in Chinese steel consumption is expected to decelerate to 1.0% in 2014 and 0.8% in 2015, compared to the growth of 6.1% in 2013, according to the World Steel Association.

#### Excess capacity will remain a central challenge to the steel industry

As was noted in the Chair's summary at the Ministerial Council Meeting in May 2014, excess capacity is one of the main challenges facing the global steel sector today. The growing gap between global steelmaking capacity and demand has led to a deterioration in the financial situation of steelmakers, and has raised concerns about the longer-term economic viability and efficiency of the industry.

With investment projects continuing to increase in a number of economies while steel consumption growth is anticipated to remain moderate, the global imbalance will continue to pose risks for the industry for the foreseeable future. Non-OECD economies will continue to lead the capacity expansion in the global steel industry, with their share of world capacity expected to increase to 71.5% by 2017. One of main reasons behind capacity expansions is the existence of government supports, which distort market-based decision making for new investments.

While excess capacity will remain a challenge, measuring it precisely is difficult methodologically. The Committee discussed a methodological proposal to measure effective capacity developed by the Secretariat in consultation with a group of experts. Significant methodological challenges remain ahead and the Committee agreed that further work on capacity is needed over the biennium 2015-2016.

In parallel to this methodological work, policies that have implications on capacity developments will continue to be an important strand of the deliberations of the Steel Committee. The Committee discussed how to facilitate its work on capacity, with a sense of urgency, including ways to collect data on support measures by governments. This issue will be a significant focus in 2015.

#### Trade and trade policies

Following declines in global steel trade in 2012 and 2013, world steel export growth has picked up significantly during the course of 2014. Total exports from the ten largest steel exporting economies in the world increased by 7% in the first half of 2014, to an annualised level of 292 million metric tonnes. A key development has been the significant acceleration in steel export growth in some Asian economies.

The risk of trade conflicts in steel appears to have increased of late. Government interventions in the steel sector, excess capacity and oversupply, associated trade disruptions, and the industry's low profitability are creating significant challenges for steel companies and spurring calls for more trade restrictive measures around the world.

Petitions for trade remedies to address unfair and injurious imports are increasing. Relative to many other goods-producing industries, the use of trade remedy measures is more frequent in the steel sector. Countervailing duties, antidumping duties and, to a lesser extent, safeguards emerge among the measures most frequently used by the steel industry, according to recent WTO data. The Committee discussed reasons why the steel industry is so affected by unfair trade practices. While trade remedy measures are a legitimate means to respond to unfair trade practices, the importance of countries applying trade remedies objectively and in accordance with international trade rules was highlighted.

Steel exporters are increasingly concerned about the imposition of localisation restrictions in some countries. The Committee agreed to continue collecting information on these measures, where they are being implemented, and the potential problems they create for steel trade.

Members of the Committee also discussed options for greater co-operation, with a view to stemming the looming risk of a trade conflict. Members stressed the importance of raising transparency of subsidy usage, including the reduction of subsidy levels, sharing information about experiences with dealing with excess capacity and mitigating foreign investment barriers which could promote industry rationalisation.

#### Energy efficiency is important for the steel industry

Energy efficiency can help addressing climate change challenges and increase industrial productivity. Energy management systems can save energy through low-cost operational improvements, either instead of or before technology capital investments. Both the energy and non-energy-related benefits of introducing an energy efficiency management system into company policy and case studies and good practices were also discussed. The Committee discussed a variety of policy and programme types and financial mechanisms that could be applied by governments to support the implementation of energy efficiency management systems.

#### Market and policy trends affecting trade in raw materials

A workshop hosted by South Africa and held in conjunction with the Steel Committee meeting brought together government and industry representatives from raw material importing and exporting economies to assess market trends and policy developments affecting trade in steelmaking raw materials. The aim of the workshop was to better understand the impacts of trade-restrictive raw material policies on the global steel industry and to explore policy approaches that would improve the longer-term efficiency and functioning of these markets. Recently, steelmaking raw material markets have been affected by sluggish world demand and oversupply leading to an overall decline in prices. With continued investment activity in the relevant steelmaking mining sectors amid expected modest steel demand in the future, a quick rebound in raw material markets seems to be unlikely.

The developments in mining capacity and increased scrap availability in some regions are likely to affect the geographical distribution of raw materials supply in the future. While the dominant producers continued to attract most of the exploration activity, new areas such as Africa and Asia have emerged as steelmaking raw materials mining regions. In addition, as some regions further develop their steelmaking industry, the demand for raw materials is also likely to shlft.

On the policy side, the last few years have seen an expansion in government efforts to regulate export flows of steel-related raw materials through the use of export restrictions in many countries. Export restrictions have contributed to volatility and uncertainty in markets, and have become a considerable source of trade friction.

Restrictive trade policies in the area of raw materials are a global challenge that requires well-informed and coordinated responses. The workshop emphasised the importance of open and well-functioning raw material markets for the health of the global steel industry and for realising the full growth potential of the raw material sectors around the world.

Workshop participants debated the risks presented by restrictive policies on raw materials trade. In addition to their inherently discriminatory aspects, trade restrictive policies can lead to unintended consequences and result in retaliatory actions and impose significant costs on economies (see the recent publication by the OECD on Export Restrictions in Raw Materials Trade). The workshop stressed the importance of seeking multilateral solutions. The OECD Steel Committee can contribute to improving transparency in trade restrictive measures, and this will remain a high priority in its agenda.

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More Market Oriented Reform and Better Governmental Supervision and Services

Last month, the Third Plenary Session of the 18th CPC Central Committee approved a decision on "major issues concerning comprehensively deepening reforms", in which, the core of economic system reform is to deal with the relationship between the government and the market, to enable the market to play a decisive role in resource allocation and enable the government to play a better assisting role. In particular, for the steel industry, resource allocation should be mainly determined by the market, and the government should be responsible for supervising and providing public services, creating fair trading market environment, and knitting a social safety net to handle post-effects of phased out steel capacity.



























China's State Overcapacit	Council issued " <i>Guideline to</i> v" in October 2013.	o Resolve Serious
The effects	or over a year:	
2015. - Eliminate	d 31.1 million tons of backward	steel capacity in 2014.
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#### III. Further measures to dissolve the overcapacity

- China has 1160 million tons of steel-making capacity by end of 2014 and 70.9% of utilization rate for the year, that is still below the normal level.
- The industry needs further efforts to eliminate other 50 million tons around of steel capacity in 2-3 years, to reach the normal utilization rate.
- Strengthen the legal restraint. China revised the Environmental Protection Law that came into effect on January 1, 2015. Implementing the law will raise significantly the cost of illegal pollution of steel makers.
- Administration of market access. Ministry of Industry and Information Technology(MIIT) established the *Standards of Normative Steel Mill*.
   Small steel producers those can not come up to the standards will be squeezed out gradually.



Weak Global Macros Drag Down US Steel Companies (Part 5 of 12)

### China's Steel Exports Rev Up as Domestic Demand Sputters

By Mark O'Hara - Jul 17, 2015 12:40 pm EDT

#### China's steel exports

We've already seen how lower Iron ore prices will make a dent in the earnings of integrated steel companies. We also saw that Chinese steel producers will gain from lower seaborne iron ore and coal prices. China is the largest buyer of seaborne iron ore and coal. It has benefited from the price drop for these commodities.

#### China's Steel Exports Rev Up as Domestic Demand Sputters - Market Realist





#### June exports rise 25% year-over-year

The above graph shows the trend in China's steel exports. In June, exports increased 25% year-over-year. In the first six months of 2015, China's steel exports increased 27% compared to the previous year. The surge in China's steel exports is only adding to a global oversupply.

It's worth noting that China's steel exports are increasing on a high base year. Last year, China exported a record 93 million metric tons of steel. Higher Chinese steel exports have already created a glut of steel in international markets, which has led to depressed steel prices.

The China Iron and Steel Association expects Chinese steel demand to fall 6% year-over-year in 2015. However, steel production is expected to fall only about 1% over this period. As steel's domestic demand sputters without a proportionate adjustment in steel production, China's steel exports continue to rev up.

#### Negative for steel industry

Higher Chinese steel exports are negative for the global steel Industry. US steelmakers like US Steel (X), AK Steel (AKS), and Nucor (NUE) have filed antidumping cases against certain Chinese steel products.

Europe (VGK) and India (EPI) have also slapped anti-dumping duties on certain Chinese steel products.

In the next part of this series, we'll take a look at the worrisome trend in US steel imports.

Weak Global Macros Drag Down US Steel Companies (Part 6 of 12)

### Breakup of US Steel Imports Paints a Grim Picture

By Mark O'Hara + Jul 17, 2015 12:49 pm EDT

#### **US steel imports**

In the previous part, we saw that China's steel exports increased 25% year-over-year in June. Now let's look at US steel imports. US steel imports fell 16% year-over-year in May, falling to the lowest level since March 2014. This appears to be an encouraging development for the domestic steel industry. But the data might still fail to cheer up the beleaguered steel industry.

# China's Churning Out Steel And the World Isn't Happy

Martin Ritchie June 18, 2015 - 3:35 AM EDT

From Brazil to Canada and Mexico to Turkey, steelmakers are unhappy with China.

The producer of half the world's steel is destabilizing the market with "massive and increasing overcapacity in an era of slowing growth," according to a joint statement by industry associations from around the world this week. All regions are suffering from a "dramatic increase in unfair imports," it said. China exported more of the alloy in April than any other country produced, according to the World Steel Association.

Prices have slumped worldwide as China ships excess output overseas amid slowing domestic demand. While the government plans to reform the industry by merging the dominant state-owned suppliers, overseas steelmakers say it's maintaining unfair state support that's prolonging the glut.

"Whenever there is trade friction you will hear these complaints," said Helen Lau of Argonaut Securities (Asia) Ltd. in Hong Kong. "The bottom line though is that China's steel industry is in decline. China is exporting more because domestic demand is not very strong, but at the same time there is export demand."

Officials from the <u>China Iron & Steel Association</u>, which represents the country's industry, were unavailable to comment on the letter, said Zhu Guangsheng, the group's media liaison. Nobody answered calls to the press office of the Ministry of Industry and Information Technology and the National Development and Reform Commission in Beijing, which set steel policy.

#### Import Action

The statement was sent by industry groups representing steelmakers in the U.S., Canada, Mexico, Latin America and Europe. They called on governments to address the global overcapacity and take into account China's steel policy when considering whether it should be recognized as a market economy by the World Trade Organization.

Some countries are already acting to reduce imports from China. The European Union this month renewed

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tariffs on steel wires used in construction for another five years while Mexico imposed levies on some exporters. U.S. steelmakers including U.S. Steel Corp. and Nucor Corp. filed a <u>complaint</u> alleging imports of corrosion-resistant metal from China and four other countries are being sold at unfairly low prices.

China exported a record 10.3 million tons in January and shipments in the first five months of the year were 28 percent higher than the same period in 2014. It made a record 822.7 million tons of the alloy last year.

#### **Difficulty** Competing

"Our producers are having difficulty competing," Sahap Ataman, director of economic affairs at the <u>Turkish</u> <u>Steel Producers Association</u>, one of the statement's signatories, said Wednesday in a phone interview. "There are many, many, many different types of subsidies in China at the central and local government level. And as their economy slows they are following an aggressive pricing policy."

<u>Production</u> in the country slowed 1.6 percent in the first five months of the year. Output is falling as both private and state-owned mills face lower prices, stricter environmental regulation and tougher access to bank loans, according to Argonaut's Lau.

China's government plans to consolidate the country's steelmakers to create three to five major producers. The 10 biggest suppliers should be in control of at least 60 percent of output by 2025, according to the latest policy update in March. This will be more effective than previous attempts at encouraging mergers, analysts at Sanford C. Bernstein wrote on Wednesday.

Global demand will grow 1.4 percent in 2016 from this year's 1.54 billion tons, Edwin Basson, director general of the WSA said last month. Consumption next year will contract 0.5 percent in China while expanding in the Middle East, Europe and Africa, according to the group.

Hot-rolled coil, used in construction and piping as well as in household items such as refrigerators, has fallen 20 percent this year on the Shanghai Futures Exchange. Prices in the U.S. are 23 percent lower, according to data from The Steel Index Ltd.

Before it's here, it's on the Bloomberg Terminal.

• China • Mexico • Imports

# **EXHIBIT 11**


# Steel Statistical Yearbook 2014

worldsteel Committee on Economic Studies - Brussels, 2014

Table 1

#### Total Production of Crude Steel \*

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	6 530	7 031	7 129	7 578	7 594	5 662	7 206	7 474	7 421	7 953
Belgium	11 698	10 420	11 631	10 692	10 673	5 635	7 973	8 026	7 301	7 093
Bulgarla	2 106	1 969	2 123	1 909	1 330	726	737	835	633	523
Czech Republic	7 033	6 189	6 862	7 059	6 387	4 594	5 180	5 583	5 072	5 171
Germany	46 374	44 524	47 224	48 550	45 833	32 670	43 830	44 284	42 661	12 645
Finland	4 832	4 739	5 054	4 431	4 4 1 7	3 066	4 029	3 0.80	3 750	3 517
France	20 770	19 481	19 852	19 250	17 879	12 840	15 414	15 780	15 600	15 695
Greece	1 967	2 266	2 4 16	2 554	2 477	2 000	1 821	1 934	1 247	1 030
Hungary	1 952	1 958	2 084	2 227	2 097	1 403	1 678	1 7/6	1 542	1000
Italy	28 604	29 350	31 624	31 553	30 590	19 848	25 750	28 735	27 252	24 080
Latvla	662	688	690	696	635	692	655	568	27 202 R05	109
Luxembourg	2 684	2 194	2 802	2 858	2 582	2 141	2 548	2 521	2 208	2 000
Netherlands	6 848	6 9 1 9	6 372	7 368	6 853	5 104	6 651	8 021	6 970	2 030
Poland	10 593	8 336	10 008	10 632	9 728	7 128	7 003	8 801	9 359	7 050
Portugal	1 445	1 408	1 719	1 853	2 017	1 614	1 5/3	1 0/2	1 060	2 050
Romania	6 042	6 280	6 266	6 261	5.035	2 761	3 721	3 828	3 202	2 000
Slovak Republic	4 454	4 485	5 093	5 089	4 489	3 747	1 593	1 220	3 292	2 900
Slovenia	566	583	628	638	642	120	4 303	4 200	4 400	4011
Snein	17 621	17 826	18 301	18 999	18 6/0	1/ 359	16 3/3	15 504	12 620	44 959
Sweden	5 978	5 723	5 466	5 673	5 108	2 804	10 343	10 004	4 306	14 202
United Kingdom	13 766	13 230	13 971	14 317	12 521	10 070	0 700	9 007	4 320	4 404
European Union (27)	202 523	195 608	207 306	210 185	108 646	130 203	172 946	94/0	9079	11 858
	LUL OLU	100 000	201 000	210100	100 010	103 033	172 010	urm	100 300	100 200
Albania (e)	143	180	206	263	250	221	390	464	500	550 e
Bosnia-Herzegovina	75	289	490	533	608	519	592	649	700	722
Croatia	86	73	81	75	89	43	95	96	1	135
Macedonia	309	310	354	359	253	270	292	386	217	100
Montenegro (e)				174	170	130	130	140	120	70
Norway	725	705	684	708	560	595	530	610	700	605
Serbia				1 478	1 662	1 061	1 254	1 324	346	396
Serbia and Montenegro	1 175	1 292	1 823							
Switzerland	1 000	1 158	1 252	1 264	1 312	934	1 320	1 400	1 450	1 530 e
Turkey	20 478	20 965	23 315	25 754	26 806	25 304	29 143	34 107	35 885	34 654
Other Europe	23 992	24 972	28 205	30 608	31 710	29 076	33 745	39 174	39 918	38 762
Azerbalian (e)	250	330	300	150	150	120	120	120	120	173 0
Byelorussia	1 792	2 027	2 324	2 410	2 589	2 4 17	2 530	2 614	2 687	2 2/5
Kazakhstan	5 385	4 451	4 269	4 782	4 250	4 146	4 220	4 699	3 676	3 275
Moldova	1 013	1 049	677	965	885	426	242	321	335	100
Russia	65 583	66 146	70 830	72 387	68 510	60 011	66 942	68 852	70 426	68 856
Ukraine	38 738	38 641	40 891	42 830	37 279	29 855	33 432	35 332	32 975	32 771
Uzbekistan	602	595	617	645	682	716	716	733	736	746
C.I.S.	113 363	113 239	119 908	124 169	114 345	97 691	108 202	112 671	110 956	108 256
		-								
Canada	16 305	15 327	15 493	15 572	14 945	9 292	13 009	12 891	13 507	12 415
Cuba	192	245	257	268	279	267	278	282	277	322
El Salvador	59	48	72	73	71	56	64	97	72	118
Guatemala	232	207	292	349	250	224	274	294	334	385
Mexico	16 737	16 <b>1</b> 95	16 447	17 573	17 209	14 132	16 870	18 110	18 073	18 208
Trinidad and Tobago	815	712	673	682	489	417	572	603	628	616
United States	99 681	94 897	98 188	98 101	91 895	59 384	80 495	86 398	88 695	86 878
North America	134 021	127 631	131 421	132 618	125 138	83 772	111 562	118 675	121 586	118 942

## **EXHIBIT 12**

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