



GLOBAL FORUM ON STEEL EXCESS CAPACITY

REPORT

30 NOVEMBER 2017

This report has been prepared under the direction of the Chair, based on consultations with Global Forum members and technical support and expertise from the Facilitator (OECD).

Introduction

1. A core engine for industrialisation since more than two centuries, the steel sector has been an important conveyor belt linking economies throughout the world in the past 40 years, through its central position in global value chains. Indeed, few challenges are more existential or global than those in the steel sector.

2. Excess steelmaking capacity – a global challenge that continues to plague the sector – creates significant difficulties for steel producers in advanced, emerging and developing economies alike. The situation has become particularly acute since 2015. It depresses prices, undermines profitability, generates damaging trade distortions, jeopardizes the very existence of companies and branches across the world, creates regional imbalances, undermines the fight against environmental challenges and dangerously destabilizes world trading relations. It especially undermines income opportunities of employees. Alleviating excess capacity becomes a necessary condition for more stable, profitable and sustainable business and employment conditions, which allows the industry to face a number of long-term challenges more effectively.

3. Indeed, the steel industry will have to adjust in response to fundamental changes in economic activity brought on by the “next production revolution,” necessitating the development of new, breakthrough steelmaking technologies. If the steel industry is to continue to invest towards value creation, it will require significant reductions in excess capacity and a return to sustained profitability.

4. The dimension and depth of excess capacity implies it is no longer simply a cyclical issue to be tackled as “business as usual”. Curbing excess capacity and building a well-functioning, open, competitive, efficient, stable and transparent environment is a core challenge of our time - for the steel sector and beyond, as expressed in the Hangzhou and Hamburg Summits. This report focuses on the steel sector and provides concrete policy solutions to reduce steel excess capacity.

5. In light of these challenges, G20 Leaders called for the formation of a Global Forum on steel excess capacity at their summit on 4 and 5 September 20106, in Hangzhou, China.

6. The Global Forum on Steel Excess Capacity was formally established, and its Terms of Reference approved, on 16 December 2016 in Berlin, following several preparatory meetings in September, October and November of that year. The Global Forum brings together 33 member economies representing more than 90% of global steel production and capacity. According to the G20 Leaders’ mandate at Hangzhou, the OECD acts as the facilitator to the Global Forum, its Steering Group and the Chairmanship. The facilitator has provided valuable support to the Global Forum throughout all work stages, in terms of technical, analytical and meeting facilitation support. The majority of the Global Forum meetings hosted by the German Chair took place at the premises of the OECD.

7. In line with G20 Leaders’ call for increased information sharing, the Global Forum dedicated the first several months of its work to developing an information-sharing mechanism to exchange information on crude steel capacity developments, government policies to address excess capacity, as well as market-distorting subsidies and other government support measures that contribute to steel excess capacity.

8. In response to the G20 Leaders’ call all 33 members participated in the information sharing exercise and all had provided disaggregated data on capacity as well as policies taken at the central government level. This was complemented by inputs from relevant stakeholders. Progress has been made since the Hamburg Summit. The Global Forum now has an extensive database on capacity developments at

the disaggregated level¹, provided or verified by governments. It also has collected information on government policies with a direct or indirect bearing on excess capacity in the steel sector. Such data has been provided at the central government level for all members and at the regional or provincial levels for most members. While much work remains, this is the first time that a policy inventory is being built that goes well beyond what is reported in other fora and whose emphasis is on policies relevant for steel. This tangible process contributes to the collective trust and confidence that are necessary to find collective solutions to the challenge of excess capacity. The first year of operation of the Global Forum has put in place the mechanisms needed to deliver on the Forum's goals. It is now time for the Forum to achieve those concrete results.

9. Following the commitments made by G20 Leaders at the Hamburg summit, this substantive report defines concrete policy solutions as a basis for tangible and swift policy action to address excess capacity in the steel sector.

10. In the Hangzhou and Hamburg Summits, Leaders referred to excess capacity as a phenomenon with the following characteristics:

- It is global and requires collective responses, with each economy taking the necessary actions to deliver the collective solutions that foster a truly level playing field.
- Subsidies and other types of government support can cause market distortions and contribute to the problem of excess capacity, requiring urgent attention. In particular, the market function should be enhanced, adjustment encouraged, and such market-distorting subsidies and other types of support by governments and related entities should be removed.
- It is exacerbated by a weak global economic recovery and depressed market demand.

11. Efforts by the members of the Global Forum play an important role to improve the global steel industry.

1. Global cooperation to find solutions to tackle excess capacity in the steel market

The state of the steel industry

12. The global steel industry showed some signs of recovery in 2016 and registered moderate growth in 2017, supported by stronger growth in the global economy more generally. The cyclical recovery in steel markets appears to have broadened, and most regions are expected to register growth in steel demand in 2017 and 2018, according to the most recent forecasts available for the world steel industry.

13. However, the evidence suggests that the current uptick is associated with cyclical factors and that the underlying trend in steel demand remains weak. The world's steel intensity (the amount of steel used to generate one unit of GDP) has been trending downwards and is expected to continue to do so owing to structural trends such as the shift towards more efficient use of materials that will require lighter and stronger steel products. Other long-term forces are also at work which, without prejudice to certain regional trends, will keep global steel demand growth subdued, including the ageing population and digitalisation trends. World Steel Association forecasts frame long-term demand growth in the 1% per annum range.

¹ South Africa has not agreed to share disaggregated data with other Global Forum members due to legal reasons. Based on the principle of reciprocity, South Africa therefore will be exempted from the information sharing and not have access to Global Forum members' disaggregated data.

14. At the same time, capacity levels exceed global consumption significantly, with closures in some economies being partially offset by continued capacity expansions. In this market context, excess capacity in the global steel industry has increased in recent years. In 2016, the global surplus in steelmaking capacity is estimated to have reached around 737 million metric tonnes, the highest level seen in the history of the steel industry.² If the announced capacity expansions until 2020 take place, excess capacity will further increase—exacerbating the imbalance.

15. The imbalance between supply and demand is a global challenge that has led to a collapse in the fortunes of steel industries in all regions of the world. Excess capacity has driven down prices, employment, capacity utilisation rates and profitability for steelmakers, putting at risk the viability of an industry that produces a material which is vital for the functioning of economies and societies. It negatively affects the environment.

16. Further significant reductions in global excess capacity will be needed in order to avoid a prolonged structural crisis in the steel industry. Governments have a role to play in this process. Swift and tangible actions that encourage industry restructuring, remove market-distorting subsidies and other governmental support measures that contribute to excess capacity, and enhance the role of market forces in determining the competitive outcomes in the steel industry would alleviate excess capacity in the short and long term.

What do the data tell us?

17. The capacity data for 2014-2016 shared by members suggest that the overcapacity situation may have eased slightly very recently, but not enough to meaningfully reduce the structural imbalance and avoid problems going forward. The total crude steelmaking capacity of the 33 members stood at 2,031.4 million metric tonnes (mmt) in 2016, a decline of 43.7 mmt, or 2.1%, compared to the level of 2014. Despite this downward adjustment, capacity in member economies is still up considerably compared to the level existing in 2010 according to OECD figures, outpacing the increase in global demand for steel by a wide margin over that period.

18. The data indicate that capacity developments over the last two years diverge across the Global Forum's membership. Economies like the European Union, China, and Japan have registered declines in capacity since 2014, while others like India, Indonesia, Mexico, Brazil and Turkey registered increases over the same period, albeit with very different implications for global markets depending upon their market shares (for further information please see Annex 1). Significantly, the plant-level data shared by members suggest that privately owned companies have been affected the most by closures of capacity. In many other economies, where steel demand developments are currently more favourable, or where demand is expected to increase significantly in the longer term, capacity expansions continue to be observed. Moreover, the data show that governments continue to play a considerable role in the industry. State-owned enterprises account for a large share of some members' steel production and some governments are involved in new capacity investments.

² This figure is based on the latest OECD data for world crude steelmaking capacity and demand for steel in crude equivalent terms, based on figures from the World Steel Association. The OECD's latest figure for world steelmaking capacity in 2016 is 2,369.5 mmt (see <http://www.oecd.org/sti/ind/83-oecd-steel-chair-statement.htm>). Demand for steel in crude steel equivalent terms, in 2016, is derived by taking demand in 2015 from the World Steel Association's most recent Statistical Yearbook, 1,616.8 mmt, and applying growth of 1% in 2016, which is the growth estimated for finished steel demand in the October 2017 release of the World Steel Association's Short Range Outlook (see <https://www.worldsteel.org/media-centre/press-releases/2017/worldsteel-Short-Range-Outlook-2017-2018.html>). While the final figure has not been released, based on these data sources, the difference between world capacity and demand in 2016 was approximately 737 mmt.

2. Government policies, measures and practices in Global Forum member economies

19. Past and current restructuring experiences in the steel industry demonstrate that governments used different approaches for addressing the challenges of excess capacity (see Annex 2). The extent of government intervention in the restructuring process has varied considerably across countries. The results of the Global Forum information-sharing exercise, as well as recent discussions at the meetings of the Global Forum, also indicate that while the majority of Global Forum member economies focus their policy efforts on ensuring market mechanisms play their full role in addressing the challenge, some members are taking administrative measures to address excess capacity. Administrative measures, if appropriately designed, and where feasible given the institutional setting, may bring effective and immediate results in reducing excess capacity. That said, the underlying causes of excess capacity have to be addressed, and the market function enhanced, to ensure long-lasting effects. This is corroborated empirically by the experience of the 1970s and 1980s (see Annex 2).

20. Irrespective of the institutional setting, governments might have reservations about the closure of plants for social reasons, such as the impact on workers and communities, and the elimination of inefficient capacities can be the subject of lengthy negotiations. The provision of subsidies and other types of government support provided, even on a temporary basis, can keep inefficient capacities in operation instead of encouraging the exit of those firms. The costs of exiting the steel industry (e.g. related to social and environmental obligations) may act as a barrier to the restructuring and closure of steel mills. It is important to bear in mind that the cost of delaying, or not restructuring the steel sector altogether, is very high, and can create systemic risks for the broader economy. Again, past experience confirms this.

21. Industry has the responsibility to identify ways to adapt to changing market conditions and companies are best placed to decide on when to invest in new capacity or when to scale it back when market conditions change. Governments have an important role to play, for example by ensuring market mechanisms work properly, by avoiding measures that artificially support excessive steelmaking capacity, and by minimizing the social impact of capacity reduction. Policies to facilitate the closure of inefficient capacity, e.g. effective bankruptcy legislation and policies to ensure that all companies compete on a level playing field irrespective of their ownership structure are key.

Overview of government policies and measures being taken by members

22. The three rounds of information-sharing allowed members to provide information on a number of government policies and measures in place bearing an influence on crude steel capacity developments.³ The remainder of this section provides a brief overview of policies and measures that were reported by members. A detailed description of the results of information sharing is provided in Annex 1. These focus on direct policy interventions, but do not include crucial yet less visible actions by governments—such as maintaining market-based framework conditions (such as those described in section 3.2).

23. Given its share of global production and capacity, China plays an important role in global efforts to reduce overcapacity (see Annex 2). Mindful of the pernicious effects of excess capacity to the steel sector and the economy, China has set targets to reduce domestic crude steel capacity and has implemented policies to limit capacity additions. In 2016, the Chinese government issued the Opinions on Resolving

³ Members were invited to indicate the targets set for reducing or increasing steelmaking capacity and describe existing measures and practices in their economies as associated with i) the facilitation of closures, ii) the maintenance or support of the domestic production base, iii) officially supported export credits for goods and services associated with crude steelmaking projects, iv) corporate restructuring, v) industry upgrading and innovation, and vi) establishing and ensuring compliance with environmental standards. Members were also invited to provide information on openness to foreign direct investment as well as information relevant to state-owned steel enterprises.

Overcapacity and Difficulties in the Steel Industry that set the objective to reduce 100 to 150 mmt of crude steel capacity in five years starting from 2016. They imply a drop between 9% and 13% to 977-1027 mmt. 500,000 workers would be resettled—around 15% of the total. Reductions would bring capacity closer to consumption.

24. Some member economies indicated that objectives had been set to expand their crude steelmaking capacity in the medium to the longer term. Based on recent forecasts set out in the National Steel Policy of 2017, India notes that capacity will rise to 300 million tonnes by 2030-31 to meet growing domestic demand. Indonesia has also indicated that its National Master Plan of Industrial Development 2015-2035 foresees an increase in crude steel capacity.

25. While restructuring is essential for addressing the challenge of excess capacity, policies designed to facilitate restructuring should be carefully designed to minimise the social costs to workers and affected communities. The high concentration of jobs in the sector, as well as the large number of jobs which are indirectly affected by steel industry restructuring, represents an important policy challenge. Members have reported a number of policies and measures in place to facilitate restructuring, including facilitating enterprises in performing social and employment liabilities of closed plants (China), incentives to assist steel workers and promote re-employment (Australia, China, the European Union and its Member States, Korea, and the United States), as well as the provision of retraining services to retrenched employees.

26. In the responses to the questionnaire, only a few members have explicitly reported the existence of policies and measures aimed at maintaining the domestic production base. The reported measures include incentives to promote investments in steel-intensive infrastructure, measures with a specific policy intent to boost steel demand in downstream sectors, trade-related measures applied to fairly traded imports, the introduction of tariff rates on certain steel products, tax concessions as well as government procurement policies requiring domestic steel content. Members of the Global Forum have not provided information on measures related to the assumption of enterprises' social liabilities as well as loans, guarantees and debt forgiveness provided at preferential terms by state-owned banks, development banks, and other government-related entities, as per the template.

27. The willingness of members to provide and discuss information on government policies and measures which potentially influence crude steel capacity and market developments is an important first step. However, it is essential to go further and increase transparency among all members with respect to market-distortive subsidies and other types of support measures provided by government and government-related entities at the central and regional levels of government. Ensuring complete information on relevant government policies and measures is crucial for addressing the challenge of excess capacity.

28. The overwhelming majority of members indicated that their respective governments do not provide officially supported export credits for goods and services associated with crude steelmaking projects.

29. Turning to policies and measures related to steel-specific corporate restructuring measures, only four members reported relevant measures in place. More specifically, members indicated measures to promote industry consolidation (Indonesia and Korea⁴), measures to facilitate changes in ownership structure (China), measures with respect to the improvement of rules and regulations related to corporate governance as well as the improvement, simplification, or acceleration of bankruptcy procedures (Indonesia). Canada indicated measures that allow corporations to restructure their business and financial

⁴ The measures are generic and not specific to the steel sector.

affairs.⁵ The implications that such measures have for addressing the issue of excess capacity will depend on the precise characteristics of the measures.

30. Innovation is an important driver of steel industry competitiveness as it allows firms to produce better products that meet more sophisticated demand or by installing new production methods that lower costs and reduce adverse environmental impacts. The majority of members indicated one or several policy measures related to steel industry upgrading and innovation in their economies. For instance, members reported initiatives aimed at encouraging plant modernisation (the European Union and its Member States as well as Indonesia) and policies and measures related to the encouragement of product specialisation (China, the European Union and its Member States, Indonesia and Korea). The majority of those who responded in the affirmative to this question indicated government support for research and development activities (Australia, Canada, the European Union and its Member States, Japan and Korea). China and Indonesia indicated initiatives aimed at upgrading steel workers' skills while India provided information on the relevant initiatives under its National Steel Policy 2017.

31. Several members provided information on policies and measures aimed at establishing and ensuring compliance of steel-producing facilities with environmental standards. These include introduction or increased stringency of environmental standards and permit requirements, introduction (or higher level) of pollution discharge fees, and the introduction of (or tighter) requirements for monitoring of pollution levels as well as introduction of measures to promote energy saving.

32. Turning to the information relevant to state-owned steel enterprises, China, India, Indonesia and South Africa reported on the existence of state-owned steel companies in their economies. These four members indicated that their state-owned steel enterprises are subject to the same reporting requirements as listed private enterprises and have to earn a rate of return comparable to private enterprises. China, Indonesia and South Africa also have explicit guidelines or targets for the disbursement of dividends by state-owned steel companies, while in India such guidelines are not specific for state-owned steel companies.

33. The results of information sharing demonstrated heterogeneity of approaches and measures taken by members to address the excess capacity challenge, which can be explained by different institutional settings in member economies. To create a common basis for swift and effective action, members agreed on six principles, which will guide governments in their efforts to develop policy solutions to encourage market function and reduce excess capacity in their steel sectors.

3. Concrete policy solutions recommended by the Global Forum

3.1 Six principles: a reference framework to guide the development of policy solutions to reduce excess capacity

34. The call by G20 Leaders at the Hamburg Summit to “rapidly develop concrete policy solutions that reduce steel excess capacity” and deliver “a substantive report with concrete policy solutions by November 2017, as a basis for tangible and swift policy action”, has prompted the Global Forum to focus its activities on the development of principles to guide governments towards concrete policy solutions to reduce excess capacity. These principles have built on the contributions of all members and are the result of an intense discussion process.

35. The principles reflect the converging views of members upon three main areas: a) the acknowledgment of the global nature of the excess capacity challenge and the necessity of collective

⁵ The measures are generic and not specific to the steel sector

solutions; b) the importance of enhancing market function and encouraging adjustment; c) the need for improving transparency, review and assessment of market developments and steel policies. This broad convergence has led to an agreement on the following six principles:

- I. Global challenge, collective policy solutions
- II. Enhance market function (1): Refraining from market-distorting subsidies and government support measures
- III. Enhance market function (2): Fostering a level playing field in the steel industry
- IV. Enhance the market function (3): Ensuring market-based outcomes in the steel industry
- V. Encouraging adjustment and thereby reducing excess capacity
- VI. Ensuring greater transparency as well as review, discussion and assessment of the implementation of the Global Forum policy solutions

Members should take tangible and swift policy action on the basis of the following guiding principles

I. Global challenge, collective policy solutions

36. **Principle:** Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies and effective policy solutions to enhance the market function and reduce steel excess capacity. To support these, Forum members may set and publish goals, if appropriate.

37. **Rationale for the principle:** G20 Leaders' noted in the Hangzhou statement that excess capacity in steel and other industries is a global issue which requires collective responses. At the Hamburg Summit, G20 Leaders committed to further strengthening cooperation to find collective solutions to tackle this global challenge, and to take the necessary actions to deliver the collective solutions that foster a truly level playing field. Within this context, the enhancement of market function can lead to the closure of the most inefficient plants and therefore contribute to reducing excess capacity. Moreover, the enhancement of market function is essential to ensure that exchanges at the national and international level are based on genuine competitive advantages rather than on support received. Setting targets for reducing crude steel capacity can be an effective element of a national framework for reducing excess capacity, provided that policy actions focus not only on the amount of capacity to be reduced, but ensure the exit of inefficient plants and enhance the market function, addressing the underlying causes of excess capacity in a structural fashion.

II. Enhance market function (1): Refraining from market-distorting subsidies and government support measures

38. **Principle:** In order to ensure that the steel market operates under market principles, governments and government-related entities should refrain from providing market-distorting subsidies and other types of support measures to steel producers. These include subsidies and other government support measures that sustain uneconomic steel plants, encourage investment in new steelmaking capacity which otherwise would not be built, facilitate exports of steel products, or otherwise distort competition by contributing to excess capacity.

39. **Rationale for the principle:** G20 Leaders at their Summit in Hamburg urgently called for the removal of market-distorting subsidies and other types of support by governments and related entities. Indeed, steel industries in some countries benefit from subsidies and related government supports. Absent such subsidies and other government support, certain new steel facilities may not have been built and consistently loss-making steel plants would have exited the market. By promoting new investment and maintaining marginal mills, subsidies and government support measures contribute to excess capacity in

the steel sector and cause market distortions affecting steel production, prices and trade. This shifts the burden of excess capacity adjustment to other countries. Policies that support exports and distort competition by contributing to excess capacity should be avoided and removed.

III. Enhance market function (2): Fostering a level playing field in the steel industry

40. **Principle:** Irrespective of ownership all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive directly or indirectly subsidies or other type of support that distort competition by contributing to excess capacity, and should follow the same regulations with economic implications and rules, including bankruptcy procedures. A level playing field should be ensured among steel enterprises of all types of ownership. Global Forum members should also continue to fight protectionism including all unfair trade practices while recognising the role of legitimate trade defense instruments in this regard.

41. **Rationale for the principle:** Historically, the steel sector in many countries has had close links with the state and has been subject to significant levels of government intervention and influence. As the result, some enterprises can potentially benefit from different types of targeted government support that distort competition and the market function. Some of the key concerns relate to the undue advantages that selected enterprises can benefit from at the expense of other firms, including financial, regulatory and in-kind support. In such cases, steel products may end up being produced by those enterprises that receive the greatest advantage from the government, and not by those who can do it most efficiently. Such special treatment may therefore distort competition and generate inefficiencies that can, in turn, create a drag on productivity and the economic well-being of enterprises acting in the steel market.

IV. Enhance market function (3): Ensuring market-based outcomes in the steel industry

42. **Principle:** Open and competitive markets and a market-driven approach to resource allocation based on the competitive positions of steel enterprises should be the driving forces of the steel sector. New investment, production and trade flows should reflect market-based supply and demand conditions.

43. **Rationale for the principle:** The enhancement of market functioning in the steel sector is likely to facilitate adjustment following periods of economic downturn and would result in more efficient use of resources in steel-producing economies, with positive impacts on overall productivity and economic performance.

V. Encouraging adjustment and thereby reducing excess capacity

44. **Principle:** Wherever excess capacity exists, governments have a role in advancing policies that facilitate the restructuring of the steel industry while minimizing the social costs to workers and communities. Governments should ensure conditions exist for market based adjustment, by facilitating the exit of consistently loss-making firms, “zombie” firms, obsolete capacity facilities and firms not meeting environmental, quality and safety standards. This would lead to a net reduction of capacity.

45. **Rationale for the principle:** The persistence of excess capacity poses significant challenges to the industry’s profitability and long-term viability, while also exacerbating trade tensions. Facilitating the exit of inefficient and consistently loss-making firms as well as obsolete capacity and capacity that does not meet environmental regulations can bring about improvements in productivity and re-allocate resources to more productive uses.

VI. Ensuring greater transparency as well as review and assessment of the implementation of the Global Forum policy solutions

46. **Principle:** Recognizing that collective policy solutions and transparency are vital for market-based responses by the industry to changing conditions in the steel market, governments should on a reciprocal basis increase transparency through regular information sharing, analysis, review, assessment and discussion as well as regular exchanges about data and concrete policy solutions, among the members of the Global Forum⁶. Governments should ensure that any relevant information on steelmaking capacity developments; supply and demand conditions as well as policy responses including support measures by governments and government-related entities is available on an on-going basis⁷. Members should exchange information on the nature and extent of export credit agency support for new steel projects. The Global Forum will report to the G20 and to interested OECD countries being member of the Global Forum on progress.

47. **Rationale for the principle:** Addressing the problem of excess capacity and evaluating progress in light of the guidance provided by G20 Leaders at Hamburg requires greater transparency. Greater transparency about capacity developments and policies relative to the steel sector including restructuring, can foster collaboration and mutual understanding of the challenges of each economy to effectively deal with excess capacity and enhance steel market function.

48. In view of the notion that excess capacity in steel has an important global component, adherence to these principles would help alleviate excess capacity and prevent its re-emergence in the future in all member economies.

3.2 Policy recommendations

49. In line with the G20 Leaders' mandates at the Hangzhou and Hamburg Summits, the Global Forum provides the following recommendations for concrete policy solutions to reduce excess capacity and enhance market function in steel sectors. These policy solutions are expected to form the basis for tangible and swift policy action by enhancing the market function and encouraging adjustment and include according to the Hamburg communiqué the removal of market-distorting subsidies and other types of support by governments and government related entities and create favourable conditions to reduce excess capacity and limit additions to excess capacity. While acknowledging and fully mindful of WTO Agreements and supporting the WTO Agreement on Subsidies and Countervailing Measures, these recommendations cover all forms of support that distort competition. The Hangzhou and Hamburg mandates cover all market-distorting (1) subsidies and (2) other types of support provided by government or government-related entities. These should be eliminated in cases where they distort competition by contributing to excess capacity—as the Global Forum objective is precisely to address such excess capacity. This applies mutatis mutandis across all policy recommendations. Made in the G20 spirit of voluntary commitments, the policy recommendations include the guiding principles and further build on them as follows.

⁶ Review means that the Global Forum will meet at least three times per year to further discuss and assess this information, to ask questions and provide answers and share best practices thereon.

⁷ Members will update this information two times per year and as it becomes available. Members are encouraged to provide updates on an on-going basis and as often as possible. The first update will be conducted one month prior to the first Global Forum meeting each year.

a) *Framework conditions*

Key recommendations (linked to principles I, II, III, IV, V):

1. Members should consider the extent to which their framework conditions and institutional settings ensure proper market functioning and policy objectives consistent with the need for reducing global excess capacity.
2. Particular attention should be given to ensure that: i) competition law, trade and investment policies, and other policies foster a level playing field for competition among companies irrespective of ownership, both domestically and internationally; ii) bankruptcy legislation is effective and procedures are expedited efficiently; iii) the internal financial market is able to price risk and deal with non-performing loans; iv) labour markets and social security systems adequately support adjustment, v) different levels of government do not have conflicting policy objectives and, vi) Procurement policies should not contribute to excess capacity.

50. Policy actions aimed at addressing excess capacity need to be seen in the broader context of existing framework conditions and institutional settings. Framework conditions need to be conducive to yielding the desired results from restructuring. A number of policy levers can be used to ensure competitive conditions in steel markets and provide the right incentives for resolving and preventing excess capacity.

51. Some of the broad policy considerations that are more directly relevant to addressing excess capacity in the steel sector include: i) trade and investment policy, with a view to removing barriers to trade and foreign direct investment; ii) competition law that ensures that all companies compete on a level playing field, irrespective of ownership, domestically and internationally; iii) bankruptcy legislation and other barriers to the exit of steel firms from the market; iv) financial market regulation aimed at addressing non-performing loans as well as working towards improved corporate reporting and transparency, which would help financial markets differentiate between efficient and inefficient firms more effectively; v) labour market regulation, and appropriate social security and pension systems that support adjustment; vi) social security and pension systems, by providing support for workers affected by adjustment, while at the same time ensuring the sustainability of the social welfare systems; and, vii) governance and policy coherence, ensuring that the incentives for addressing excess capacity are aligned between the different levels and agencies of government.

52. The key challenge is to coordinate the different policy levers to obtain a policy mix that is conducive to restructuring the steel sector while enhancing market function and ensuring competitive conditions. For example meaningful environmental regulations with effective enforcement, particularly if combined with market-based policy instruments, intensify the pressure on inefficient and polluting firms to improve their performance or exit, thus reinforcing industrial policy actions aimed at reducing excess capacity.

53. Procurement rules and practices should not contribute to excess capacity by preventing market-based outcomes or creating incentives to maintain or expand excess capacity, including through lack of transparency or procedural fairness.

b) Market distorting subsidies and other support measures by government or government-related entities

Key recommendations (linked to principles I and II, also in part to IV):

1. Members should remove and refrain from adopting market-distorting subsidies and other support measures provided by governments and government-related entities that encourage companies to undertake capacity expansion projects, maintain consistently loss-making or uneconomic steel plants in the market, or which otherwise distort the market.
2. All Members should expeditiously share data on market-distorting subsidies and other support measures by government or other government related entities. The proper implementation of subsidies and other support measures that facilitate permanent closures of steel facilities should be carefully analysed and follow strict guidelines.
3. Governments should remove and refrain from market-distorting subsidies and other support measures by government or government-related entities that contribute to excess capacity.
4. Governments may encourage innovations in the steel sector and implementation of best available technologies among steel producers irrespective of ownership insofar as this does not distort competition and contribute to excess capacity.

54. Subsidies and other forms of government support are often channelled to steel companies through a host of instruments. The more widely used instruments, according to the results of the information sharing exercise are, in decreasing prevalence of use: tax benefits, loans and debt instruments, cash grants, cash awards, cost refunds, and government-provided goods and services.

55. Most of these instruments and subsidies, in spite of their stated purpose, can cause excess capacity and negatively impact the sector's efficiency as well as fair competition among firms. However, the extent of their negative effects can vary greatly. Those subsidies that have a more immediate and direct impact on excess capacity, or which distort the market the most, should be avoided. This is particularly the case with respect to subsidies provided to companies with the purpose of developing or expanding net capacity, or to firms experiencing persistent financial difficulties and which should therefore exit the market. Conversely, subsidies that facilitate the permanent closure of capacity could be beneficial, but their proper implementation should be carefully analysed and follow strict guidelines.

56. Some governments may encourage innovations in the steel sector and the implementation of best available technologies among steel producers irrespective of their ownership. It is important to ensure that these initiatives are not used as loopholes through which unfair subsidies are channelled as they can distort competition and contribute to excess capacity.

57. In line with the G20 Leaders' mandates at the Hangzhou and Hamburg Summits, the Global Forum provides the following recommendations for concrete policy solutions to reduce excess capacity and enhance market function in steel sectors. Governments should remove and refrain from market-distorting subsidies and other types of support measures by governments or government-related entities that contribute to excess capacity. This is irrespective of the vehicles used for such measures, whether direct or indirect, or whether they are or are not subject to WTO agreements, and covers the value chain from inputs to the final steel product. In cases in which they distort competition and contribute to excess capacity, such measures include, inter alia:

- Preferential financing inconsistent with market-based conditions, including debt forgiveness, guarantees and other transfers of liabilities, provision of guarantees or support given to an

insolvent or ailing enterprise without a credible restructuring plan that enables the enterprise to return to long-term viability within a reasonable time, and/or without the enterprise significantly contributing to the restructuring costs. It also includes policy loans inconsistent with market consideration, whether through formal bank lending, bond market, asset sales to government, or other financial channels.

- Equity infusions and conversions (including debt-for-equity swaps) inconsistent with market-based conditions.
- Grants, awards and cost refunds.
- Tax exemptions, reductions, and credits.
- Assumptions of liabilities, administrative fees or other charges by governments or government-related entities, inconsistent with market considerations.
- Provision of goods and services by a government (for less than adequate remuneration) and input support throughout the value chain from inputs to the final steel product preferentially or at non-market rates, which have economic implications. This includes provision of land, energy, raw materials, utilities, services, quotas to export and other inputs. It also includes support through raw materials such as preferential access, dual pricing, and distortive financial practices.
- Distortive discretionary policy measures or non-application of market based policy measures. This includes export subsidies, tax rebates, quotas to import, local content support including to consumers or downstream industries, local content requirements, restrictions to inward investment or support to outward investment, misappropriation of intellectual property, price fixing and other anti-competitive practices, mergers and acquisitions at non-market conditions, isolation of domestic trading from international price arbitrage or separation of domestic from external price setting, lax enforcement of regulations affecting production or sale, and non-enforcement of bankruptcy regulations.

58. Some of these are further detailed below.

c) Fostering a level-playing field in the steel sector

Key recommendations (linked to principles I and III):

1. Irrespective of ownership, all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive subsidies or any other types of support that distort competition by contributing to excess capacity.
2. All enterprises acting in a country's steel market should follow the same rules and regulations with economic implications, including bankruptcy procedures.
3. A level playing field should be ensured among steel enterprises of all types of ownership.

59. The steel sector has traditionally been characterised by its close relations to the state. Today, state-owned enterprises account for a large share of the world's steel production.⁸ While there may be some rationale for state ownership in the steel sector, concerns have been raised regarding the potential lack of transparency and preferential treatment granted to state-owned steel enterprises. This may result in distortions in the international steel market and contribute to excess capacity. The burden of industry restructuring may also not be shared equally. Indeed, the results of the information sharing exercise indicate that the overwhelming majority of closures concerned privately-owned enterprises.

60. In order to ensure fair competition and a level playing field in the steel industry, it is important that all steel enterprises follow the same rules and reporting requirements. The information-sharing exercise indicated that approaches to regulating state-owned enterprises with respect to transparency, disclosure or enforcement can vary across member economies.⁹ Therefore, there is a rationale for members to refer to common recommendations with respect to the operations of state-owned steel enterprises in their economies.

d) Fostering industry restructuring by assisting displaced workers

Key recommendations (linked to principles I and V):

1. Governments should favour active labour market policies which maintain and increase the employability of workers who are dismissed as a result of the restructuring.
2. Employment adjustment measures are an important instrument for addressing the social cost of restructuring. This should be provided as support to workers and should not constitute subsidisation to companies, which could maintain existing capacities in place.
3. The specific needs of older workers and other disadvantaged groups affected by restructuring should be taken into account to facilitate their transitioning into alternative occupations.
4. The effectiveness and efficiency of the measures should be evaluated.

61. Measures to support workers affected by the closure of steel plants serve the double purpose of alleviating the social cost of closure and smooth the political frictions of adjustment insofar as the employment consequences of restructuring are addressed. A number of issues should be borne in mind when designing such programmes. While in general such measures aim at mitigating the employment consequence of restructuring, governments should place particular attention that these measures are provided as support to workers and do not constitute subsidisation to companies, which could maintain existing capacities in place. For instance, in the current context of excess capacity wage-topping mechanisms that delay redundancies in the hope of a recovery in the market should be avoided.

62. Moreover, to facilitate the re-employment of displaced workers, one overarching consideration should be that of linking the receipt of unemployment benefits to the active participation of the recipient in job search and training activities. Active labour market policies prevent displaced workers' skills to

⁸ In 2016, 22 of the world's 100 largest steelmaking companies were state-owned enterprises. State-owned enterprises represented at least 32% of global crude steel output in 2016 (OECD, 2017).

⁹ While recognising that Global Forum members may use different definitions for state-owned enterprises (SOEs), for the sole purpose of the GFSEC during its mandate, the term "state-owned enterprises" is understood to mean enterprises with state ownership of more than 10%. Where information based on alternative definitions has been provided by members this has been indicated in Annex 1.

atrophy and allow them to develop skills that may be required in other occupations, thereby facilitating their return to the labour market. On the contrary, the provision of generous and long-lasting unemployment benefits or unemployment insurance might discourage job search and decrease the likelihood of re-employment.

63. Lastly, particular attention should be placed on the specific challenges faced by older workers and other disadvantaged groups in accessing to training opportunities and transitioning to alternative occupations.

e) Government targets

Key recommendations (linked to principle I, III, IV):

1. Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies. To support these, Global Forum members may set and publish goals, as appropriate, to reduce excess capacity through legal and market methods. Capacity reduction targets should be accompanied by actions to eliminate policies that contribute to excess capacity, such as market-distorting subsidies and other types of support by government or government-related entities
2. The criteria for capacity reductions should, irrespective of ownership, simulate the process of market selection with consistently loss making or non-environmentally compliant firms being forced to exit the market. Ex post assessments of whether this is the case should be undertaken.
3. Government objectives to increase capacity should not be accompanied by market-distorting subsidies or other types of support by government or government-related entities that contribute to excess capacity, including input support to steel production.
4. Government targets should take into consideration demand conditions.

64. Some member governments have introduced targets to reduce or increase capacity. The introduction of capacity targets either to reduce capacity, limit new capacity additions or build new capacity should reflect market criteria to avoid creating market distortions as well as inefficiencies. Therefore member economies should exercise caution in introducing such targets.

65. With respect to targets to reduce capacity, the major challenge lies in identifying the appropriate criteria for selecting the plants that should be closed and in ensuring that the closure of the most inefficient plants takes place effectively and swiftly.

66. The setting of government targets to address excess capacity, if accompanied by the appropriate instruments to help meet those targets, can serve as an effective measure to address this challenge provided that actions to eliminate measures that contribute to excess capacity (e.g. market-distorting subsidies and other support measures provided by governments and government-related entities) are also taken. Implemented together, these can provide long-lasting solutions to excess capacity and help prevent its re-emergence in the future. The establishment of criteria based on company/plant performance is more likely to simulate the process of market selection with consistently loss making or non-environmentally compliant firms being forced to exit the market. In contrast, criteria based on plant size may provide a rationale for realising economies of scale and therefore create unintended incentives for companies to invest in new capacity or to replace smaller with larger equipment. Moreover, in economies characterised by complex governance structures, the implementation of centrally designed targets may find political resistance at the local level which may in turn hinder effective implementation and assessment.

67. Government targets should take into consideration demand conditions. It is important to explore the interaction of national objectives to expand steelmaking capacities with the situation of excess capacity at the global level.

68. In the current context of excess capacity in the steel industry, increases of capacity should be purely based on market forces, and investors should ensure that they are economically sustainable in the long term. As such, government objectives to increase capacity should not be accompanied by subsidies or any kind of direct or indirect government support including input support to steel production. Fair international trade should play its full role in meeting expected increases in demand.

f) Issues related to mergers and acquisitions

Key recommendations (linked to principles I, II, and IV):

1. Mergers and acquisition should not contribute to excess capacity.
2. Any measures taken to encourage mergers and acquisitions need to be taken in accordance with effective competition law and market principles.

69. Some member governments are seeking to address the problem of excess capacity by actively promoting mergers and acquisitions (M&As), rather than relying solely on market forces. M&As and corporate reorganisation can help to address excess capacity if firms find synergies, focus on more efficient production units, and consolidate operations, including by closing less efficient ones. This approach may also facilitate financial restructuring modernising the most productive operations and financing the closure of inefficient units.

70. However, M&As do not necessarily guarantee that capacity will effectively be closed. A variety of obstacles can impede industry restructuring and capacity reduction through M&As. First, incentives are such that M&As are more likely to take place between efficient firms, where restructuring may not be needed. Second, M&As may escalate financial challenges because extremely large companies are more prone to moral hazard problems, namely that the merged company may have no incentives to correct inefficiencies and restructure if it is "too big to fail". M&As should respond to market signals, inter alia by enhancing efficiency.

71. Any policy actions towards M&As need to be taken in accordance with market principles and effective competition law. Concrete actions include for example eliminating unnecessary institutional barriers to M&As. The detection and enforcement of laws against collusive behaviour should be stringent and proposed mergers and acquisitions should be reviewed by the relevant competition authority.

g) Ensuring export credits do not contribute to excess capacity

Key recommendations (linked to principles I, II):

1. Members should refrain from issuing officially supported export credits for steel plants and equipment which contribute to the expansion of global steel capacity that would not otherwise take place but for such subsidisation or not be in line with global steel demand.
2. When such support is provided, the terms and conditions of officially supported export credits for steel plant and equipment should be transparent, reflect market pricing and practices, and take note of guidelines agreed among some members and on-going international negotiations. This will minimise the subsidisation associated with export credits, and thus avoid supporting the creation of additional steelmaking capacity.

72. Investment in steel facilities abroad should be an enterprise's autonomous action of global resource allocation, and the result of market economy development. However, government programmes that facilitate investments in steel facilities abroad may contribute to the global excess capacity problem in the steel sector, where they are not market driven. Some projects in the steel sector are financed by official export credits or official guarantees for such credits, whereby export credit agencies provide support to steel producers abroad in order to finance equipment for their steel production projects.¹⁰ In the absence of such support, some steel projects would not take place due to the lack of private financing. This may particularly be the case when business conditions are difficult and long-term prospects subdued in the steel sector, as they currently are in light of the sector's significant excess capacity.

73. In order to exclude the potential of subsidisation associated with export credits, and thus avoid promoting additional steelmaking capacity that would not otherwise be built but for such subsidisation, the terms and conditions of officially supported export credits for steel plant and equipment should reflect market pricing and practices, and take note of existing international guidelines agreed among some members and on-going international negotiations.

h) Enhance transparency

Key recommendations (linked to principle VI):

1. Members should regularly update the information on sectoral trends (incl. capacity developments and production) and policy measures.
2. The Global Forum should regularly analyse, review, assess and discuss how the provided information aligns with the agreed principles.

74. In the light of the aforementioned key policy recommendations in the mentioned policy areas, members should enhance transparency to allow a follow-up of the implementation of recommendations. Transparency should be ensured particularly with respect to the swift policy action undertaken to address excess capacity and to the removal of market-distorting subsidies and other types of support by governments and related entities.

75. To ensure a solid information basis, members agree to improve the completeness and accuracy of the information on their existing policies at all levels of government. Members of the Global Forum also

¹⁰ Official support for export credits includes direct credit/financing, refinancing, interest rate support, guarantee or insurance.

agree to further enhance transparency, through regular exchange of information for review, analysis and assessment at each meeting of the Global Forum. More specifically, members agree to share updated information on capacity and other market developments in their respective economies to inform the discussion at the meeting. Members also agree to share information on changes that have occurred in their policies, either regarding the cancellation or update of policies that were already in place or the introduction of new policies. These updates will include a detailed description of the policy as well as a self-assessment of how the policies that were introduced, updated or cancelled align with the agreed principles. The updates will be discussed and reviewed during the Global Forum meetings. The foregoing will be done through the process defined in guiding principle VI.

i) Continue the process of the Global Forum

Key recommendations:

1. The Global Forum will meet at least three times per year to further discuss, assess and review this information, to ask questions and provide answers and share best practices thereon. The Argentinian G20 presidency foresees to hold 3 meetings in 2018.
2. As the priority for 2018, the Global Forum members should swiftly and fully apply the agreed principles and recommendations.
3. In the first half of 2018, members of the Global Forum will share information on the steps taken to eliminate market-distorting subsidies and other types of support by governments and related entities, as well as tangible and swift policy action for their removal.
4. The Global Forum should share best practices of steel industry adjustment and exchange experiences on new sources of steel demand.
5. The Global Forum will report on the process and concrete results in addressing excess capacity to G20 and to interested OECD countries being member of the Global Forum.

76. Members will update any relevant information on steelmaking capacity developments; supply and demand conditions as well as policy responses including support measures by governments and government-related entities two times per year¹¹, the first update being conducted one month prior to the first Global Forum meeting each year. The Global Forum will meet at least three times per year to further discuss, assess and review this information, to ask questions and provide answers and share best practices thereon. To keep the work of the Global Forum going and ensure the transparency exercise can be properly implemented, the Argentinian Presidency will schedule three Global Forum meetings in 2018. Members will submit updated information on capacity and policies, including enhancement of market function, adjustment and government targets for members applying them.

77. The six principles agreed by members of the Global Forum will guide government policies in the direction of alleviating excess capacity in the steel sector. As a next step the Forum should focus on swift and effective implementation of the policy recommendations.

78. In addition, some of the established policy recommendations may warrant further development. For example, members should provide further details as to the process and timing of removal of market-distorting subsidies and other kinds of support by government or government related entities. The Global Forum will work towards completion of this work by the first half of 2018.

¹¹ Members are encouraged to provide updates on an on-going basis and as often as possible.

79. In addition, in the coming months, members should work together to develop a common understanding of industry adjustment, share best practices and also exchange experiences on fostering sustainable steel demand.

80. The Global Forum will prepare a substantive report addressed to G20 and to interested OECD countries being member of the Global Forum. The report will pay particular attention to the concrete outcomes of the Global Forum's work regarding reduction in overcapacity, swift policy action undertaken to address excess capacity and to the removal of market-distorting subsidies and other types of support by governments and related entities.

ANNEX 1.

INFORMATION SHARING: CAPACITY AND POLICY DEVELOPMENTS IN GFSEC ECONOMIES

Steelmaking capacity

81. According to the figures provided by the members of the GFSEC for their respective economies, total crude steelmaking capacity of the 33 members stood at 2,031.4 million metric tonnes (mmt) in 2016. With capacity of 1,073.3 mmt in 2016, China accounts for the largest share of existing capacity within the GFSEC (52.8%), followed by the European Union (11.0%), Japan (6.4%), India (6.2%), the United States (5.6%), the Russian Federation (4.3%) and Korea (4.1%).

82. The total reported steelmaking capacity of the 33 GFSEC members declined in 2016 following slight growth in 2015. In 2016, total capacity was down by 43.7 million metric tonnes (mmt) relative to the level in 2014, i.e. by 2.1%, with some economies decreasing and others increasing their capacity to produce steel (Table 1). In terms of tonnage volume, large capacity decreases were reported in China and in the European Union, with capacity decreasing by 55.2 and 11.8 million metric tonnes (mmt), corresponding to 4.9% and 5% of their total capacity, respectively. Reported steelmaking capacity also decreased in Japan by 2.7 mmt, and declined by 0.7 mmt in the United States. India, Indonesia, Mexico, Brazil and Turkey registered increases over the same period, albeit with very different implications for global markets depending upon their market shares. While total GFSEC capacity has declined recently, looking at the capacity trend over a slightly longer time horizon, and using OECD data on capacity in 2010, shows significant overall GFSEC capacity growth between 2010 and 2016. This increase in total GFSEC capacity outpaced growth in global demand for steel by a wide margin.

83. The disaggregated data submitted by members shed light on the characteristics of the existing steel plants and sites. For example, the information shows that plants vary considerably in size, from small facilities with induction furnaces that produce only several thousand tonnes of steel per year, to enormous integrated steel works that produce in excess of 25 million tonnes per year. The data also indicate a considerable state involvement in the industry; approximately 495 mmt, or 25.7% of the total GFSEC capacity for which ownership was explicitly stated, was under state ownership in 2016.¹²

¹²For the purpose of the information sharing exercise state-owned enterprises (SOEs) were defined as enterprises that are under the control of the state, either by the State being the ultimate beneficiary owner of the majority of voting shares or otherwise exercising an equivalent degree of control. In line with the 2015 OECD Guidelines on Corporate Governance of State-Owned Enterprises, entities in which the government hold equity stake of more than ten percent may be considered as SOEs.

Some members, however, provided their own definition of what constitutes an SOE.

In the case of China, the SOE definition reads as such: The legal definition of state-invested enterprise is provided in Article 5 of the Law on the State-owned Assets of Enterprises of the People's Republic of China which stipulates that the state-invested enterprises refers to a wholly state-owned enterprise or company with the state being the sole investor, or a company in which the state has a stake, whether controlling or non-controlling.

In the case of India, SOEs are enterprises in which the majority share is held by the Union Government, and/or by State government(s).

Table 1. GFSEC figures for crude steelmaking capacity in GFSEC member economies: 2014- 2016

(1000s metric tonnes)

| | 2014 | 2015 | 2016 | Change (volume) 2014-16 | Change (%) 2014-16 |
|-------------------------|------------------|------------------|------------------|-------------------------------|-----------------------|
| China* | 1,128,510 | 1,126,880 | 1,073,330 | -55,180 | -4.89 |
| European Union** | 235,351 | 227,951 | 223,569 | -11,782 | -5.01 |
| Japan | 132,636 | 131,532 | 129,940 | -2,696 | -2.03 |
| India | 109,851 | 121,971 | 126,331 | 16,480 | 15.00 |
| United States | 113,950 | 111,775 | 113,225 | -725 | -0.64 |
| Russia | 87,369 | 87,369 | 87,869 | 500 | 0.57 |
| Korea | 79,964 | 80,244 | 80,744 | 780 | 0.97 |
| Turkey | 50,213 | 50,439 | 51,506 | 1,293 | 2.58 |
| Brazil | 47,412 | 47,457 | 51,450 | 4,038 | 8.52 |
| Mexico | 26,555 | 29,105 | 29,505 | 2,950 | 11.11 |
| Canada | 17,467 | 17,467 | 17,467 | 0 | 0.00 |
| Indonesia | 10,939 | 10,939 | 12,139 | 1,200 | 10.97 |
| Saudi Arabia | 10,341 | 10,341 | 10,341 | 0 | 0.00 |
| South Africa | 10,310 | 9,610 | 9,610 | -700 | -6.79 |
| Argentina | 6,532 | 6,650 | 6,650 | 118 | 1.81 |
| Australia | 5,570 | 5,570 | 5,570 | 0 | 0.00 |
| Switzerland | 1,370 | 1,370 | 1,370 | 0 | 0.00 |
| Norway | 800 | 800 | 800 | 0 | 0.00 |
| GFSEC total | <i>2,075,140</i> | <i>2,077,470</i> | <i>2,031,416</i> | <i>-43,724</i> | <i>-2.10</i> |

* Aggregate capacity figures provided by China are based on companies whose revenues are above 20 million RMB.

** The European Union's figure includes the capacities of all the European Union Member States.

Capacities by production technology

84. The information provided by GFSEC members shows that the integrated steelmaking route, based on the blast furnace (BF) and basic oxygen furnace (BOF), is the main technology used to produce crude steel, accounting for nearly 73.9%, or 1,503 mmt, of the GFSEC members' combined capacity in 2016. Iron ore and coal are key raw material inputs used in the BF/BOF steel production process. The electric arc furnace (EAF) process, where electricity is used to melt recycled steel (though other sources of metallic iron such as direct reduced iron can also be used), accounts for 23.9%, or 485 mmt, of members' combined steel capacity. The remainder of members' steel capacity, just over 2% of the total, is based on other processes, such as induction furnaces and open hearth furnaces. The latter are an energy-intensive process whose share in global steel production has been in decline for several years.

85. GFSEC member economies differ substantially with respect to the technologies they use to produce to produce crude steel (Table 2). In China, 94% of existing capacity uses the BF/BOF technology, whereas in other countries such as Turkey and the United States, existing capacities are mainly based on the EAF production process (76% and 66%, respectively).

86. In the case of India, crude steel production is distributed relatively equally across BF/BOF, EAF and IF processes. India is the only economy where induction furnaces are reported to be used extensively for crude steel production; induction furnaces accounted for 30% of India's total installed capacity in 2016.

87. In the European Union, total crude steelmaking capacity is relatively balanced between BF/BOF and EAF production processes, with the former accounting for 54% and the latter 44% of the economy's total capacity. However, significant differences exist among individual EU Member States.

88. Examining GFSEC members' share of capacity by production process, it is clear that BF/BOF capacities are mainly concentrated in China. To illustrate, the share of Chinese installed BF/BOF capacity relative to the total BF/BOF installed capacity of all GFSEC members combined stood at 67% in 2016, well above China's total share of crude steel capacity among GFSEC member economies (52.8%). The share of European Union BF/BOF facilities was 8.1%, followed by Japan with 6.1%, and Korea with 4.1% shares in 2016.

89. The distribution of EAF facilities is less geographically concentrated. In 2016, the European Union had the largest share of EAF facilities (20.3%) among GFSEC member economies, followed by the United States with 15.4%, China with 13.7%, Turkey with 8.1% as well as India and Japan with 7.8%.

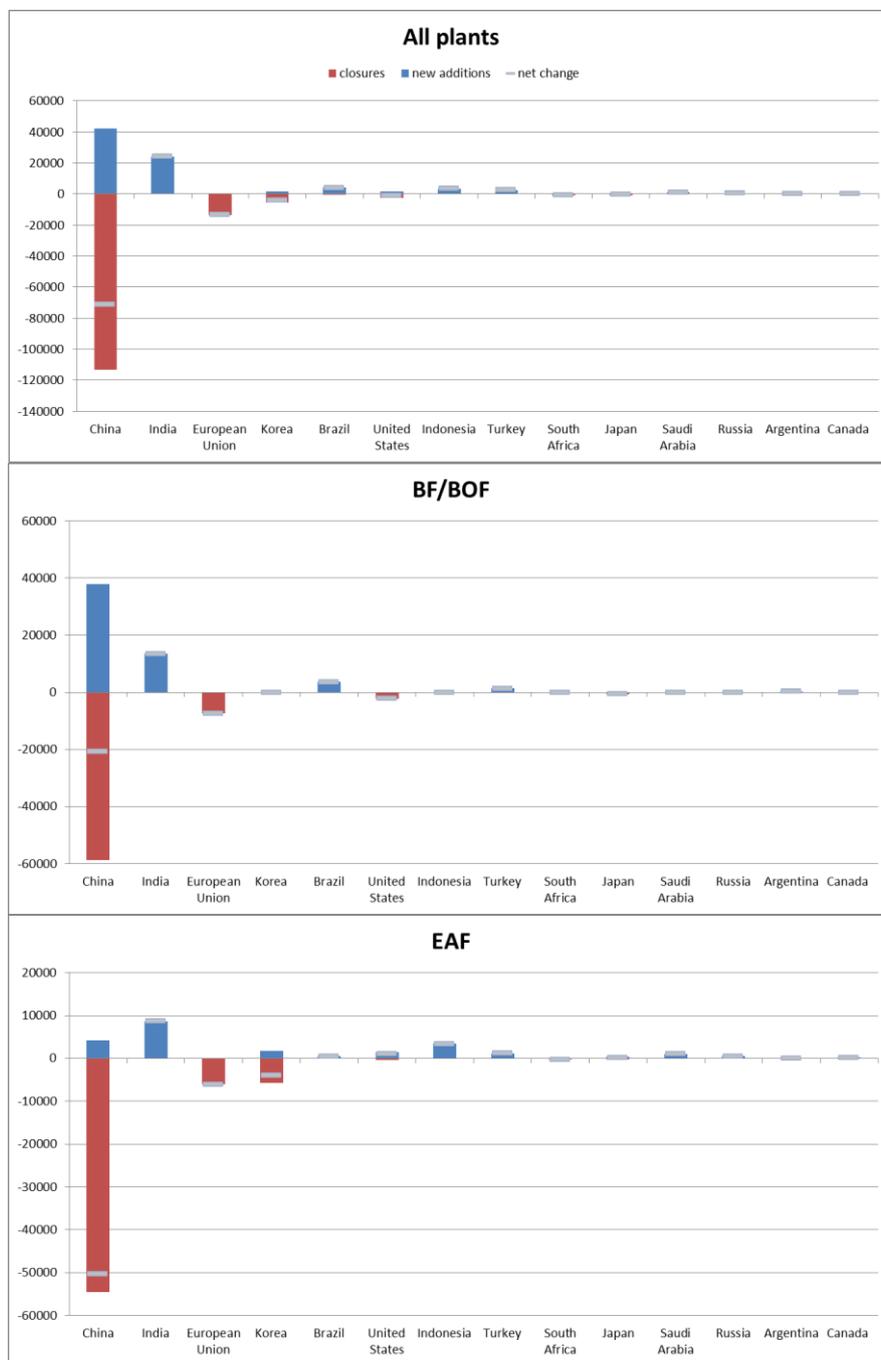
Table 2. GFSEC figures for crude steelmaking capacities by production process in GFSEC member economies: 2016

| | % BF/BOF | % EAF | % OHF | Other |
|-----------------------|----------|--------|-------|-------|
| China | 93.8% | 6.2% | | |
| European Union | 54.3% | 44.0% | 1.6% | 0.1% |
| Japan | 71.0% | 29.0% | | |
| India | 40.0% | 30.0% | | 30.0% |
| United States | 34.0% | 66.0% | | |
| Russia | 56.6% | 40.7% | 2.7% | |
| Korea | 73.3% | 26.7% | | |
| Turkey | 23.0% | 76.0% | | 1.0% |
| Brazil | 75.5% | 24.5% | | |
| Mexico | 23.4% | 76.6% | | |
| Canada | 55.0% | 45.0% | | |
| Indonesia | 24.0% | 76.0% | | |
| Saudi Arabia | | 100.0% | | |
| South Africa | 59.0% | 36.0% | | 5% |
| Argentina | 48.1% | 51.9% | | |
| Australia | 70.0% | 30.0% | | |
| Switzerland | | 100.0% | | |
| Norway | | 100.0% | | |

Net changes in capacity by production process

90. Net changes in capacity result from capacity additions and closures in member economies. Figure 1 below presents net changes in capacity resulting from capacity additions and closures, and by production process, for those members where data were available.

Figure 1. Capacity additions, closures and net changes in capacity (2014- 2016), '1000s tonnes



New capacity additions

91. Between 2014 and 2016, new additions of crude steel capacity among GFSEC member economies totalled 82.1 mmt. China accounted for the largest share, with new additions amounting to 42.1 mmt, i.e. 51.2 % of the total, followed by India with 24.1 mmt (29.3%). Sizeable steelmaking investments were also registered in Brazil (4.2 mmt) and Indonesia (3.4 mmt) during the same period (Table 3).

Table 3. New capacity additions in GFSEC member economies 2014- 2016

(1000s metric tonnes)

| | 2014 | 2015 | 2016 | total | % of total |
|----------------------|---------------|---------------|---------------|---------------|-------------------|
| China | 22,580 | 19,480 | - | 42,060 | 51.2% |
| India | 7,591 | 12,120 | 4,360 | 24,071 | 29.3% |
| Brazil | - | - | 4,200 | 4,200 | 5.1% |
| Indonesia | 150 | 180 | 3,050 | 3,380 | 4.1% |
| Turkey | 974 | 298 | 1,242 | 2,514 | 3.1% |
| Korea | - | 1,100 | 700 | 1,800 | 2.2% |
| United States | - | - | 1,450 | 1,450 | 1.8% |
| Saudi Arabia | 200 | 250 | 600 | 1,050 | 1.3% |
| Russia | - | - | 500 | 500 | 0.6% |
| Japan | - | 350 | - | 350 | 0.4% |
| Argentina | 192 | 118 | - | 310 | 0.4% |
| South Africa | | 120 | 180 | 300 | 0.4% |
| Canada | 125 | | | 125 | 0.2% |
| GFSEC total | 31,812 | 34,016 | 16,282 | 82,110 | 100.0% |

92. Steelmakers' investments in new capacity across GFSEC economies were mainly targeted towards the BF/BOF production process, with 56.6 mmt of BF/BOF capacity installed between 2014 and 2016. The technological choice clearly leaned towards BF/BOF equipment in China (90% of total new installed capacity) and Brazil (88% of the total new installed capacity). In the case of India and Turkey, new investments included both in BF/BOF and EAF equipment, while in Indonesia, Korea and the United States the new additions were associated completely with the EAF process. South Africa's new capacity additions focused on other production processes.

93. The questionnaire for information sharing requested information on type of capacity addition as well as the origin and source of financing for the addition. While these details were not provided in most cases, the information submitted thus far indicates that many new steel plants are being built, with funding sourced from both private and public sources. In some cases, the capacity additions are replacements of steel-making facilities that have been closed earlier.

Capacity closures

94. Between 2014 and 2016, 137 mmt of capacity were closed in GFSEC member economies (Table 4). The overwhelming majority of these closures (82.6%) took place in China, while the European Union witnessed the closure of about 13.5 million metric tonnes. Substantial closures of capacity also took place in Korea (5.7 mmt) and the United States (2.6 mmt).

Table 4. Permanent capacity closures in GFSEC member economies 2014- 2016

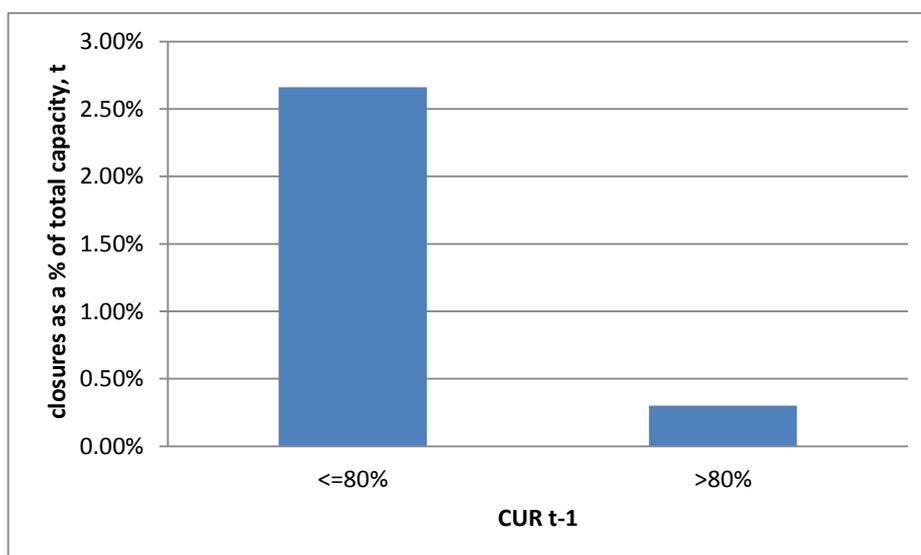
(1000s metric tonnes)

| | 2014 | 2015 | 2016 | total | % of total |
|-----------------------|---------------|---------------|---------------|----------------|---------------|
| China | 31,130 | 17,060 | 65,000 | 113,190 | 82.6% |
| European Union | 1,685 | 7,400 | 4,382 | 13,467 | 9.8% |
| Korea | 4,700 | 820 | 200 | 5,720 | 4.2% |
| United States | 450 | 2,175 | 0 | 2,625 | 1.9% |
| Japan | 296 | 0 | 484 | 780 | 0.6% |
| South Africa | 0 | 1,000 | 0 | 1,000 | 0.7% |
| Brazil | 0 | 0 | 210 | 210 | 0.2% |
| GFSEC total | 38,261 | 28,455 | 70,276 | 136,992 | 100.0% |

Note: The economies listed in the table reported capacity closures. Other GFSEC members indicated that they did not have capacity closures.

95. Of the 137 million metric tonnes of steelmaking capacity that were reported to be closed between 2014 and 2016, 50.5% was BF/BOF and 48.9% was EAF capacity. Such a relatively equal proportion between the types of closed plants is largely a reflection of the relative importance of the capacities closed in China and in the European Union, whereas in the United States the majority of closures concerned BF/BOF facilities (82.9%). In Korea and South Africa, capacity closures concerned only EAF plants. Within the examined period the data also seem to suggest that economies with lower capacity utilisation rates were more likely to experience relatively larger amounts of closures the following year (see Figure 2). This is illustrated by the fact that more closures relative to total steelmaking capacity took place in economies where utilisation rates were below 80% in the preceding year. However, further empirical analysis on the basis of a longer time horizon would be necessary to ascertain the strength of such correlation.

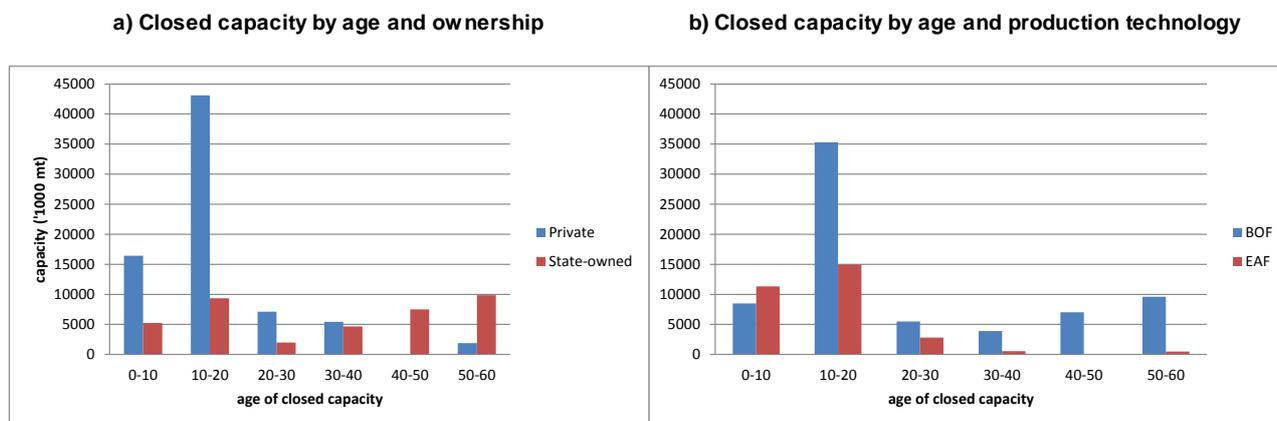
Figure 2. Closures (as a % of capacity) in year t and capacity utilisation rate (CUR) in year t-1



Note: Closures of all GFSEC members in 2015 and 2016 and capacity utilisation rates of GFSEC members in 2014 and 2015.

96. The disaggregated data provided by members indicate that most closures concerned privately owned plants, as shown in Figure 3. Moreover, the majority of the closed plants were plants up to 20 years of age. State-owned facilities that were closed in the examined period were, on average, significantly older than privately-owned ones. In particular, the majority of state-owned facilities were older than 30 years old when closed, while a high percentage of private firms were less than 20 years old (Figure 3a). In terms of production process, BOF were on average older than the EAF closed facilities. While about 38% of closed BOF were above 20 years old this was the case only for 13% of the closed EAF facilities (Figure 3b).

Figure 3. Capacity closures by age, ownership and production technology (2014- 2016), '1000s tonnes



Notes:

a) Discrepancies in the total amount of closures in the two figures above are due to i) differences in the comprehensiveness of the information provided on ownership and production technologies of the closed plants and ii) closures of facilities with both EAF and BOF production technologies were not taken into account.

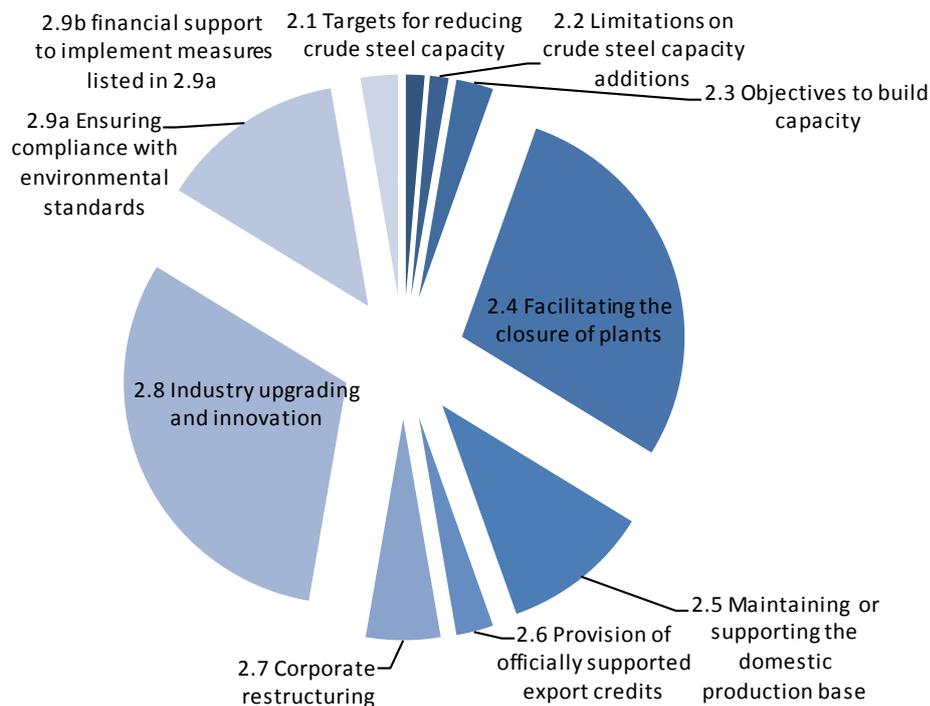
b) For the definition used for state-owned enterprises (SOEs) see footnote 1.

Summary of Part 2 of the questionnaire: government policies and measures

97. All 33 GFSEC members participated in Part 2 of the questionnaire. While all members have provided information on government policies and measures at the central level of government, only 31 members have answered the questions for both the central and regional/local levels of government. In what follows, a summary of the responses for each question included in Part 2 is provided. Several questions are followed by two pie charts providing an indication of the answer to the question as well as an overview of the reported measures for each question. The comments appearing below the pie charts briefly illustrate the information shared by members. The details of the policies and measures implemented are provided in the country notes for each GFSEC member on a dedicated password-protected web-platform. The following summary is based on the responses that were provided by members on government policies and measures at the central level of government as well as policies and measures at the regional, provincial and local levels for those members who have provided this information and agreed to share it with Global Forum members.

98. The results show that, of the members who answered “yes” to questions 2.1 to 2.9, the policies and measures reported the most were those related to industry upgrading and innovation, facilitating the closure of plants, establishing and ensuring compliance of steel-producing facilities with environmental standards, followed by policies and measures to support the domestic production base. Very few members indicated policies and measures related to corporate restructuring. Only one country (China) responded that they have set targets to reduce crude steel capacity and have implemented policies to limit capacity additions.

Figure 4. Overview of the reported policies and measures



Question 2.1 Targets for reducing crude steel capacity set by governments since 2009

99. Only one country (China) responded that they have set targets to reduce crude steel capacity. China indicated to have set a target at the national level to reduce crude steelmaking capacity by 100-150 mmt over the five-year period from 2016 to 2020.

Question 2.2 Limitations set by the government on crude steel capacity additions

100. Thirty two members indicated that there are no explicit limitations on crude steel capacity additions, at both the central and regional levels, in their economies. Only one country (China) responded that they have implemented policies to limit capacity additions. China reported that it has developed a restriction policy on steel production capacity, which bans new capacity and prohibits the localities or departments to file any steel project with new capacity. More details can be found in China's country note.

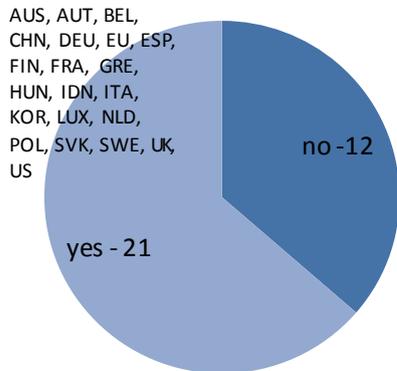
Question 2.3 Objectives set by the government to build crude steel capacity in the medium to longer term (5-15 years)

101. Two members (India and Indonesia) indicated that their respective governments have objectives to build crude steel capacity in the medium to the longer term. Referring to recent forecasts described in the *National Steel Policy 2017*, which anticipates significant growth in steel consumption over the next 15 years, India notes the need to increase its steel production to meet growing demand. Indonesia indicated

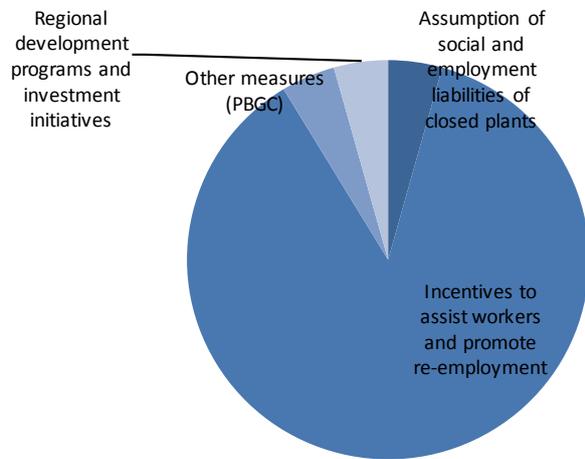
that its *National Master Plan of Industrial Development 2015-2035* foresees an increase in crude steel capacity.

Question 2.4 Policies and measures to facilitate the closure of plants

Answer to question



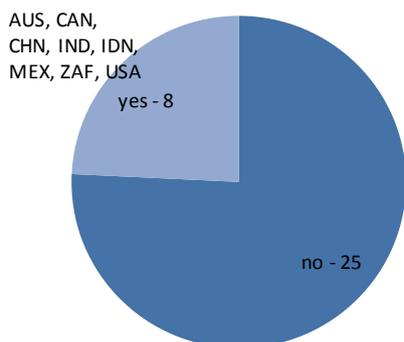
Indication of reported measures



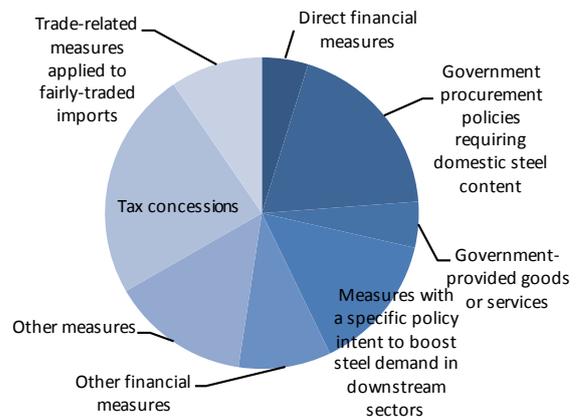
102. The majority of GFSEC members indicated that they have policies and measures in place to facilitate the closure of plants. For example, Australia, China, the European Union (and its Member States), Korea, and the United States indicated that they have incentives in place aimed at *assisting workers and promoting reemployment*. In addition, China provided information on measures that were put in place to assume *social and employment liabilities*, while Indonesia shared information on initiatives under *regional development programs and investment initiatives*. The United States also indicated the existence of an insurance program (*Pension Benefit Guarantee Corporation*), which protects the retirement security of American workers in defined benefit pension plans.

Question 2.5 Policies and measures to maintain or to support the domestic production base

Answer to question



Indication of reported measures



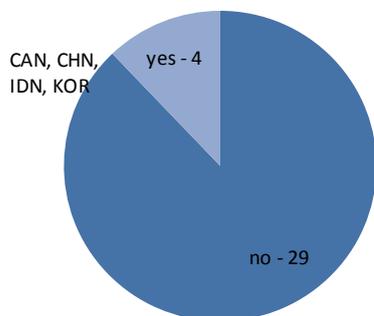
103. A relatively small number of GFSEC members indicated that they have policies and measures in place aimed at maintaining or supporting the domestic production base.¹³ Of those who provided information on relevant measures, two members grant *tax concessions* at the central level of government (Indonesia and the United States) and three members reported such measures at the sub-central level of government (Australia, Canada and the United States). Three members indicated *government procurement policies requiring domestic steel content* (Indonesia, South Africa and the United States) as well as *measures with a specific policy intent to boost demand* (Australia, China and Indonesia). One member (Indonesia) provided information on government assistance in the form of *government-provided goods or services*. Canada reported a *financial measure* in the form of a *repayable financial contribution*, while the United States provided information on the *State of Ohio Pre-Seed Fund Capitalization Program* as well as the *State of Connecticut Manufacturing Assistance Act*, under which financing is provided for some manufacturing projects. India and Indonesia provided information on *trade-related measures applied to fairly-traded imports*. Additional measures not listed in the questionnaire were specified by Indonesia (*trade regulation on import provisions for iron or steel, alloy steel, and its derivatives* as well as *regulation concerning import duty charges*), Mexico (*Decree Modifying the Tariff of the General Import and Export Tax Law and the Decree that establishes several programs of sectorial promotion*) and the United States (*Pension Benefit Guarantee Corporation*).

Question 2.6 Provision of officially supported export credits for goods and services associated with crude steelmaking projects

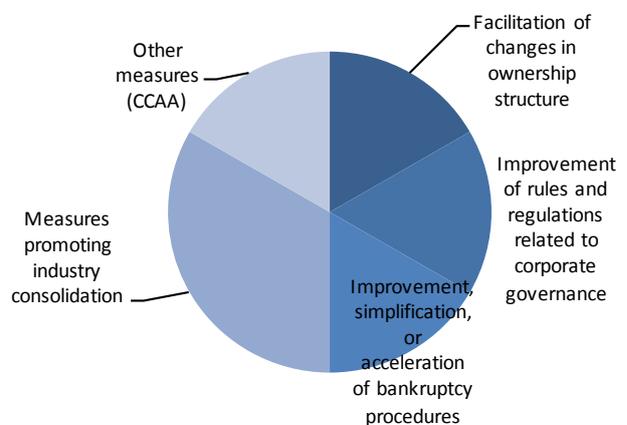
104. The overwhelming majority of members indicated that their respective governments do not provide officially supported export credits for goods and services associated with crude steelmaking projects. Japan and the United States answered in the affirmative. Japan provided information on two programmes. The United States explained that, although the Export Import Bank of the United States support for projects expanding crude steelmaking capacity is not prohibited, no support has been provided over the last three years, and indeed for the last decade or more.

Question 2.7 Corporate restructuring policies and measures

Answer to question



Indication of reported measures

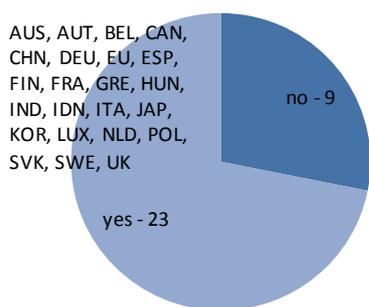


¹³ It should be noted that not all Members provided information on any advantages provided by state-owned banks, development banks, and other government-related entities, as this element of the template was not agreed by all Global Forum Members and was therefore non-mandatory.

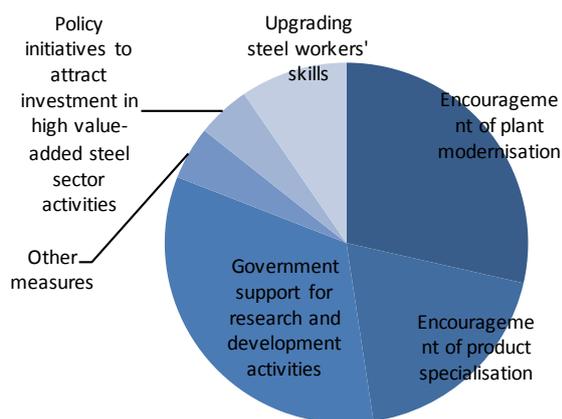
105. Four members reported policies and measures related to corporate restructuring. More specifically, Indonesia and Korea indicated specific initiatives in place related to *measures promoting industry consolidation*. Indonesia also indicated measures with respect to *improvement of rules and regulations related to corporate governance* as well as *improvement, simplification, or acceleration of bankruptcy procedures*. China provided information on its initiatives aimed at promoting corporate mergers and acquisitions under the selected option *facilitation of changes in ownership structure*. Canada specified other measures not listed in the questionnaire (*Companies' Creditors Arrangement Act*).

Question 2.8 Industry upgrading and innovation

Answer to question

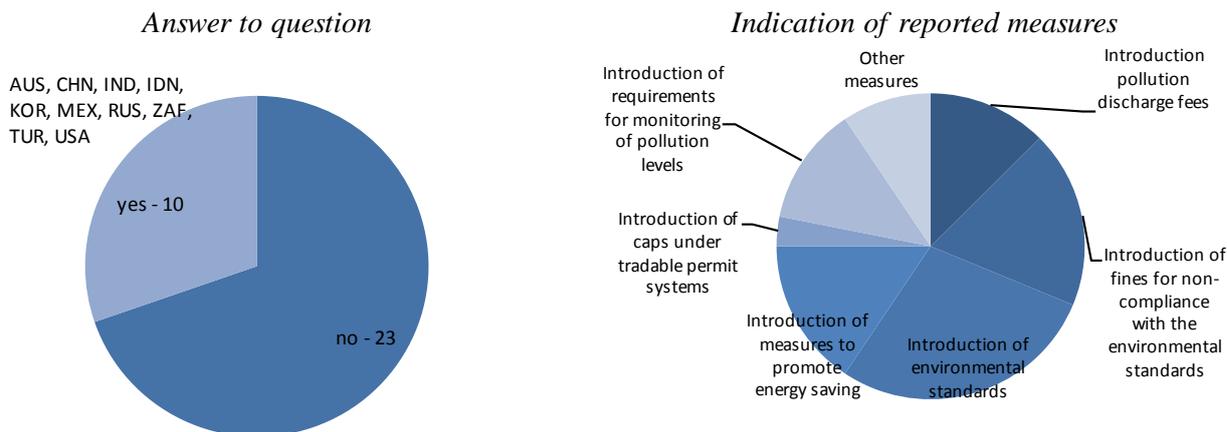


Indication of reported measures



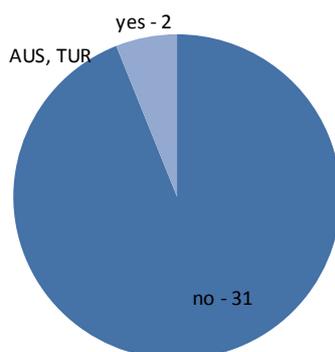
106. Twenty three members indicated one or several measures related to industry upgrading and innovation. Australia, Canada, the European Union (and its Member States) and Indonesia provided information on their initiatives aimed at *encouraging plant modernisation*. Australia reported relevant measures at the sub-central level of government while Canada provided information on relevant initiatives at both central and sub-central levels of government. Policies and measures related to the *encouragement of product specialisation* were noted by China, the European Union and its Member States, Indonesia and Korea. Of the 23 members who responded in the affirmative to this question, the majority provided information on *government support for research and development activities* (Australia, Canada, the European Union and its Member States, Japan and Korea). Canada indicated relevant measures at the central and provincial levels of government. Indonesia provided information on *policy initiatives to attract investment in high value-added steel sector activities* at the regional level of government. China and Indonesia indicated initiatives aimed at *upgrading steel workers' skills* while India provided information on the relevant initiatives under its National Steel Policy 2017.

Questions 2.9a and 2.9b Establishing and ensuring compliance of steel-producing facilities with environmental standards and provision of associated financial support



107. With respect to policies and measures aimed at establishing and ensuring compliance of steel-producing facilities with environmental standards, 10 members have indicated relevant measures that are in place in their economies. Of those who reported relevant measures in place, the overwhelming majority of members indicated *introduction (or increased stringency) of environmental standards and permit requirements* (Australia, China, Indonesia, Korea, Mexico, Russia, South Africa, Turkey and the United States). Six members (Australia, China, Korea, Mexico, Russia and South Africa) reported *introduction (or increased level) of fines for non-compliance with the environmental standards* in their economies while five members (Australia, China, Indonesia, Mexico and South Africa) indicated *introduction of (or more ambitious) measures to promote energy saving*. Four members reported *introduction of (or tighter) requirements for monitoring of pollution levels* (China, Mexico, South Africa and Turkey) as well as *introduction (or higher level of) pollution discharge fees* (China, Korea, Mexico and South Africa). One member (Korea) reported *introduction of (or more binding) caps under tradable permit systems*. Additional measures were specified by Australia, India and Turkey. Australia provided information on the initiatives under *Emissions Reduction Fund (ERF)*, India indicated *national commitment under COP 21* and Turkey provided information on recently introduced *Metal Scrap Importer Certificate*.

Question 2.9b Provision of financial support related to the implementation of measures to establish and ensure compliance of steel-producing facilities with environmental standards and provision of associated financial support listed in Question 2.9a

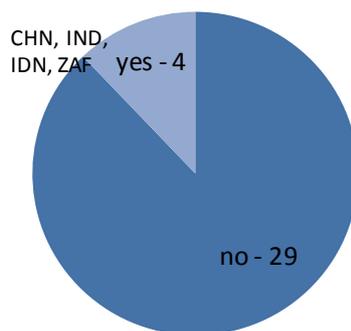


108. Of those who reported policies and measures aimed at establishing and ensuring compliance of steel-producing facilities with environmental standards, only two members (Australia and Turkey) provided information on financial support related to their implementation. Turkey, further explained that although the steel industry and other industries are exempted from VAT and customs duty on abatement equipment, no incentive certificate has been issued to the steel producers so far, as the necessary legal framework is still not in place.

Question 2.10 Limitation of foreign direct investment in the steel sector

109. All 33 GFSEC members indicated that their governments do not limit foreign direct investment in their steel sectors.

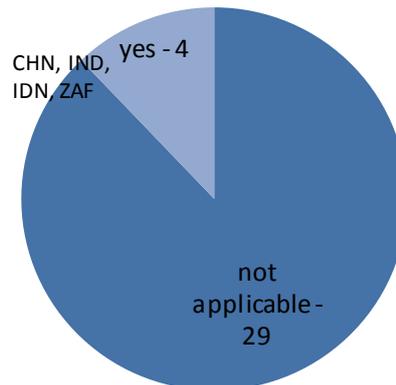
Question 2.11 Operation of state-owned steel enterprises in the economy



110. Four members (China, India, Indonesia and South Africa) indicated that state-owned steel enterprises operate in their economies.¹⁴ China provided a legal definition of a state-invested enterprise, referring to a wholly state-owned enterprise or company with the state being the sole investor, or a company in which the state has a stake, whether controlling or non-controlling. India noted that with the exception of voting rights by virtue of majority shareholding, the SOEs have significant autonomy and there is no meaningful government control over SOEs in India.

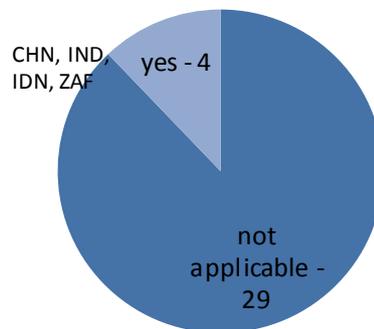
¹⁴ The United States responded in affirmative to this question. The United States explained that no U.S. government-owned or government-related steel facilities exist in the United States, but there are foreign invested firms producing steel in the United States that are state-owned. In view of this, the affirmative response of the United States is not reflected on the chart.

Question 2.12 Reporting requirements of state-owned steel enterprises¹⁵



111. China, India, Indonesia and South Africa indicated that state-owned steel enterprises operating in their economies are subject to the same reporting requirements as listed private enterprises.

Question 2.13 Whether the government or relevant state agency seek rates of return for state-owned steel enterprises consistent with those of private enterprises¹⁶

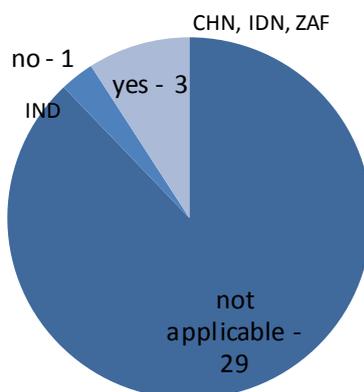


112. China, India, Indonesia and South Africa indicated that their governments or relevant state agencies seek rates of return for state-owned steel enterprises consistent with those of private enterprises.

¹⁵ Please note that this question is not applicable to GFSEC members which indicated that state-owned steel enterprises do not operate in their economies.

¹⁶ Please note that this question is not applicable to GFSEC members which indicated that state-owned steel enterprises do not operate in their economies.

Question 2.14 Whether there are explicit guidelines or targets for disbursement of dividends by state-owned steel companies¹⁷



113. Three members (China, Indonesia and South Africa) indicated that there are explicit guidelines or targets for disbursement of dividends by state-owned steel companies in their economies. India explained that although there are general guidelines for disbursement of dividends by state-owned companies, these guidelines are not explicit to state-owned steel companies.

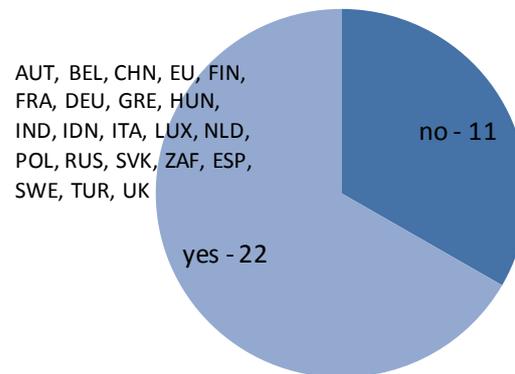
Question 2.15 How commercial policies and strategies of state-owned steel companies are defined¹⁸

114. Three members (of the four who indicated that state-owned steel enterprises operate in their economies) provided a response to this question. China indicated that state-owned steel enterprises' commercial policies and strategies are formulated strictly following their internal decision-making process, while India noted that the steel sector is deregulated in India and all steel enterprises, whether state-owned or not, operate in and subject to the same market dynamics. South Africa explained that the commercial policies and strategies of state-owned steel companies are aligned to the policy and strategies outlined in the *National Development Plan and Industrial Policy Action Plan*. Indonesia did not provide an answer to this question.

¹⁷ Please note that this question is not applicable to GFSEC members which indicated that state-owned steel enterprises do not operate in their economies.

¹⁸ Please note that this question is not applicable to GFSEC members which indicated that state-owned steel enterprises do not operate in their economies.

Question 2.16 National strategies or development plans for the steel industry



115. Two-thirds of the entire membership (22 members) indicated that there is a strategy or development plan for the steel industry in their economies. For the EU Member States, the EU's Action Plan for the European Steel Industry was taken into account as well as national initiatives in some cases.

ANNEX 2.

A. Past approaches to facilitate restructuring in the steel industry

116. The history of the steel industry shows that governments have typically participated in the ownership of steel companies and have frequently intervened in the industry. Government intervention is widely believed to have contributed to the excess capacity crisis that followed the first oil shock in 1974, with global steelmaking capacity remaining well above demand for steel for more than a decade. At that time, excess capacity was a reflection of misguided investment decisions by private firms, as well as the result of policy settings which encouraged the expansion and retention of steelmaking capacity.

117. Government intervention during that crisis exacerbated the problem of excess capacity insofar as it discouraged the curtailment of investments in new steel projects and the closure of inefficient or consistently loss-making firms. For example, by the late 1970s the largest producers in major European economies were kept alive only through massive injections of state aid in the hope that the market would, at some point, recover (Howell et al., 1988). While motivated by the concerns of potentially significant job losses and the risks of engendering economy-wide financial crises, such interventions only worked as short-term relief, but did not address the needed restructuring of the industry.

118. When restructuring became unavoidable, governments undertook a number of measures primarily to minimise the social costs placed on workers. By minimising the social costs of restructuring, governments in Europe and Japan removed some of the pressures that made closures of plants politically infeasible. In particular, governments provided support to displaced workers through a number of active labour market policies (ALMPs), including income support, skills retraining and assistance to find alternative employment (Houseman, 1991). In addition, governments attempted to tackle the regional dimension of closures by implementing regional development programmes that would ease the burden of adjustment in affected regions. Indeed, the employment consequences of restructuring were significant. To illustrate, in Europe alone the steel workforce declined by 50% between 1974 and 1986, while in the United States the industry's workforce fell by around 66% during that period (Houseman, 1991; Howell et al., 1988).

119. Administrative measures were also part of the package that facilitated the restructuring of steelmaking economies between 1974 and 1986. Some included the implementation of a system of production quotas and minimum prices among European Union Member States. This was facilitated by the fact that much of the sector was composed of SOEs. Similarly, in Japan, the government collaborated with the leading producers to maintain domestic price stability through limiting production for domestic sales (Howell et al., 1988). While government involvement in the industry became less prominent in developed economies with the attenuation of the steel crisis in the mid-1980s, the development objectives of newly industrialising economies included the establishment of a national steel industry championed by the government. Empirically, jurisdictions setting targets for reduction were successful once (1) the targets were clearly established at plant level and sufficient in size (at least 20%) and time horizon (maximum 5 years), (2) reduction of employment was sufficient (in excess of 45%), and (3) the instruments to implement the plan were well designed (including an effective and strict control of state subsidies and support; sufficient social assistance for workers; as well as mandatory, precise business plans proving long-term financial viability). Earlier attempts falling short of this approach led to a costly and painful delay in the implementation of policies necessary to address excess capacity.

B. Global Forum Members' policies and views on addressing capacity

The following are individual views and perceptions by Global Forum members in their own words.

AUSTRALIA

120. The Australian steel industry has been adversely affected by continued excess capacity. The Australian Government's industry policy is to support a business environment that enables growth for globally competitive industries. To achieve this, the Australian Government has introduced a range of generic policies and programs to boost science and commercialisation, encourage business investment and innovation, improve business capability, and streamline regulation.

The Australian Government does not have specific policies the domestic steel industry. Australia has amongst the world's most open economic settings.

AUSTRIA

121. The steel industry in Austria is characterized by a high degree of specialization, comparably small production lots and high capacity utilization. Therefore, international overcapacities mainly impact via a reduction of income due to depressed base prices. Income and profitability however are necessary to maintain the investment capabilities that the industry needs to secure its economic sustainability.

An example: Due to international overcapacities in 2015 the average base prices of different flat products were depressed between 16% and 29% compared to 2014, which led to an income reduction of 180 million €. Compared to the Austrian turnover in the relevant segments of 3.8 billion € and the EBIT generated of 220 Million €, this is significant. In the beginning of 2016 prices were at a new low and the respective income losses, if this price level would have been maintained throughout 2016, was expected to reach 460 million €. However, antidumping procedures by the European Union in the year 2016 reversed the price trends.

Up-market specialization in Austria avoids to build-up overcapacities due to growth by quality rather than quantity. The modernization of the specialty steel plant in the town of Kapfenberg is a good example in this respect.

BELGIUM

122. For more than four decades, Belgian steel industry has undergone major changes. Since the production peak in 1974, key indicators employment and production have decreased sharply, respectively with - 82% and - 54%. Open market constraints and necessary adjustments have indeed led to major changes in the market organization. From a fragmented industry in the 60's, production reorganization, concentration and industry rationalization have contributed largely to reshape the sector and its production factors. Productivity gains were at the core of the innovation process, also streamlined by strict demands from the customer base and environmental constraints.

Nowadays crude steel production is in the hands of major industry players having turned the sector into a modern, innovative, client oriented and energy efficient industry. To remain competitive, more recently additional efforts have been made to reshape the industrial value chain. As a result of the financial crisis and unfair trade flows, constraints have generated additional restructuring. Industry led rationalization programs of the hot phases' part of the value chain contributed to the permanent closures of ArcelorMittal Liège (2 blast-furnaces) and ESB electric arc furnace. A move having deeply modified the Belgian steel

industry landscape. This was essential to face the new fundamental market changes and perspectives. During those evolutions, laid off workers and reconversion needs were in the center of attention. Considerable public action was at the forefront to alleviate the social costs of exits.

CANADA

123. According to the OECD, global steelmaking capacity increased from 1,055.8 to 2,380.7 mmt between 2001 and 2016, (a 125 per cent increase), while demand stood at 1,515 mmt in 2016. As a small producer with an open market, Canada has been affected by this excess capacity. Canadian producers have suffered downward pressure on prices and injury from unfairly traded (dumped and subsidized) imports. As an indication of these deleterious effects, between 2001 and 2016, 58 anti-dumping and 10 countervailing duty measures were imposed on primary steel products to mitigate the impact of trade distortions caused by excess capacity.

Even with targeted trade remedy measures in place, excess capacity has resulted in significantly squeezed profit margins for Canadian steel producers, resulting in permanent and temporary closures, and corporate restructuring efforts. Between 2001 and 2016, employment in the steel sector has decreased from 39,210 to 22,486, or by 43 per cent. Further, in 2014 and 2015, two of Canada's three largest integrated steel producers sought creditor protection under the *Companies' Creditors Arrangement Act* (CCAA).

As a proponent of open and competitive markets, and a market-driven approach to resource allocation, the Government of Canada has facilitated the entry and exit of steel producers through sector agnostic legislation such as the CCAA, and supported impacted communities and workers through temporary income support under the *Employment Insurance Act*. Such measures are implemented transparently and do not specifically target the steel sector, and serve to support open and competitive markets founded on a transparent regulatory framework.

CHINA

124. China has launched supply-side structural reforms which have made progress. The major measures taken by China have been to: i) Set clear goals for reducing excess capacity, that is, to reduce 100-150 mmt of crude steel capacity from 2016 to 2020, ii) Adopt market and legal means to reduce capacity by facilitating the exit of capacities that do not meet the requirements of laws and regulations on environmental protection, energy consumption, quality, safety and technology standards, and encouraging the exit of inefficient capacities based on market principles, and iii) Take a series of policy measures, including the establishment of an inter-ministerial joint mechanism comprising of 25 ministries and agencies to eliminate outdated capacity and clear up projects violating laws and regulations, earmarking RMB 100 billion as a special fund to resettle the workers affected by the capacity reduction in the steel and coal sectors, enhancing supervision and inspection to prevent reopening of shut-down capacity and to prohibit new capacity investments in violation of laws and regulations.

Since 2016, China has reduced over 100 mmt of crude steel capacity, with 65 mmt reduced in 2016. The capacity utilization rate in China has registered a significant increase and market conditions have also improved since then. These actions have contributed significantly to the recovery of the global steel industry. China is willing to share its experiences with other members to find a cure to the problem facing the global steel industry.

EUROPEAN UNION

125. EU industry has neither caused nor contributed to the severe overcapacity that plagues the world market in the last decade. Yet it has suffered greatly from it: the EU is the region with the largest reduction in capacity in the world since 2014. The EU does not hesitate to stem unfair trade practices, stabilize the

market, address the effects on our workers, and accompany the EU industry's drive to remain at the apex of competitiveness, innovation and resource-efficiency with the full array of policies of the 2016 Commission Communication on Steel. But global overcapacity has reached a tipping point—it is so significant that it poses an existential threat that the EU will not accept. This requires urgent solutions addressing its structural causes: market-distorting subsidies and other support measures. The EU's ample restructuring experience, with both painful failures and successes, provides useful answers to today's problems. Whatever the policy mix, market-based restructuring is the only sustainable solution—with strict elimination of market-distorting aid. Reductions in capacity by relevant countries must be sufficiently large—postponing necessary cuts is a recipe for daunting problems in the medium term. The social impacts must be squarely catered for. And increases in capacity must also be market-based, strictly following long-term demand. The GFSEC is an essential vehicle to swiftly implement the concrete policy solutions that are urgently needed to address overcapacity. It is also a fundamental test of the relevance of G20 cooperation in an ever more complex environment.

FINLAND

126. Steel industry plays important role also in Finland and the current distortions in the global steel market with dumping and use of subsidies have affected our industry as well. Steel producers in Finland have developed special products for demanding applications, but their economy is unfortunately dependent on crude steel production. In the long run, research and innovation are key engines of economic and productivity growth. However, we want to emphasize that there is a long way from research to production and thus R&D won't provide the solution for the current steel market crisis. It should be taken into consideration that special products represent a small part of total steel production. The equipment and facilities of Finnish metallurgical plants are modern and energy efficient. Valuable metals and energy of raw materials are fully utilized, bi-products are recycled effectively to minimize waste and extra heat is used either in processes or to provide heating to surrounding communities. Energy savings obtained due to technological development will be reinforced by equipment and processes for environmental protection. In conclusion, Finland sees excess steel capacity very harmful for both R&D&I activities and climate change mitigation.

FRANCE

127. The steel sector in France underwent major restructuring in the 1980's and 1990's which enabled France to cut past excess capacities. Strict EU wide state aid rules, that forbid subsidies and other type of government support measures, ensure that the steel sector operates under strict market based rules that prevent consistently loss making facilities from continuing to operate. However, as steel is a global market, existing excess capacities in other areas of the world have a strong negative impact on steel producers in France, notably due to unfair trade practices that artificially lower prices and decrease the profitability of French steel producers. Global steel excess capacities have led to a surge of import on the EU and French markets, especially since 2013, notably from China. This created a strong pressure on prices, due to the low prices of import which negatively impacted profitability. As a consequence, steelmaking production in France has fallen from 18Mt in 2008 to 14Mt in 2006 with the permanent closure of several steel plants. The decrease of steel production has had a strong social impact in France with the decrease of the workforce by over 17% between 2008 and 2015 due to the destruction of over 8000 jobs. France supports the legitimate use of trade defense measures to tackle the adverse effects of unfair trade practices and restore a level playing field. However, lasting measures in producing countries to address distortions that cause excess capacities are necessary to ensure sustainable growth for the sector.

GERMANY

128. In Germany, around 20 million tonnes of crude steel capacity were shut down in the 1980s. This represented about 30% of the installed production capacity in 1980. Also in the aftermath, there were repeated distortions in the steel demand, which required further capacity adjustments. In the 1990s, crude steel capacity was reduced by a further 5 million tonnes. Even in the years following the global financial crisis, companies have each responded individually to the emerging challenges, mostly unfair trade. Restructuring and capacity adjustments will continue to be the result of permanent entrepreneurial processes in the context of a market-based environment.

GREECE

129. The steel industry in Greece is one of the most important sectors for the economy. It's highly export oriented with over 70% of production being exported, mainly to the Balkan countries, North Africa and the Near East.

During the last 10 years there has been a substantial reduction in the production of steel in Greece. The total capacity of the main 5 steel plants of around 4 million tons has been reduced to only 1.3 million tons in 2017. That compares to about 3 million tons in 2011, the last year that all 5 plants were in operation. Greek steel companies, mainly producers of reinforcing bars and wire rod, have suffered 650 million euros loss of profitability in the last 8 years. During these years, 2 steel plants have remained idle and the employment rate has been reduced from around 3,000 employees to only 1,400 today. The remaining 3 plants are operating at low levels.

In the challenging international environment, the Greek industry has had to respond to short-term factors such as low construction activity, which had an adverse effect in the real economy.

The overcapacity of some countries is a reason to react. In conclusion, Greece's steel sector has suffered tremendously and the opportunity is now for the GFSEC to address the root causes of excess capacity.

HUNGARY

130. Hungary fully supports a transparent and profitable global steel industry based on mutual benefits. In order to ensure a level playing field we share the tangible and swift policy solutions recognised and expressed by Member States of GFSEC. Effective policy solutions are needed in order to reduce steel excess capacity and at the same time to ensure that steel market players operate under market principles. However, according to statistics, despite the modest demand growth import continues to raise and the steel sector faces huge challenges. Regarding Hungarian statistics, employment decreased by 8 % between 2015 and 2016. Following the closure of the steel plant of DAM in 23rd of October 2009 the production site of the market is currently represented by only two producers, namely the ISD DUNAFERR Zrt. and ÓAM Kft. So, the growing global steel capacities had already enforced Hungary to restructure and decrease its spare capacity. We share the goals of fostering a level playing field in the steel industry and as a member of the Global Forum on Steel Excess Capacity we fight against unfair trade practices. Our efforts on facilitating the restructuring of the steel industry are in line with the EU policies to promote market based responses based on supply and demand conditions. Pursuant to the a goals of Global Forum, we are going to share regularly the required information to make it possible to keep an up-to-date evaluation and review in a rapidly changing environment of the global and European steel market.

INDIA

131. India believes in the idea of cooperation to address the issue of global excess capacities and recognizes its sustained negative impacts on trade and employment in the domestic industrial sectors like Steel. India therefore calls for the removal of all WTO non-compliant market-distorting support/incentivizing measures taken by governments and related entities.

India sees its 'steel capacity' as a function of consumption, and finds it appropriate from current domestic demand-supply perspective. Government of India is also aware of the adverse environmental impact of increased industrial activity and will facilitate improvement in various aspects of energy & ecological balance through various forums/mechanisms. The public sector steel enterprises are undertaking their modernisation and ramp up programmes and the Ministry of Steel is monitoring their expansion plans. This is in addition to the steel companies themselves addressing the energy & environmental issues in their plants through technological upgradation/ modernisation, and/or adoption of energy efficient & environment friendly technologies. Furthermore, steel imports are expected to continue to be a supply source and the Government only intends to discourage such imports which enjoy WTO non-compliant support in the exporting nation, as also predatory imports leading to negation of a level playing ground.

INDONESIA

132. Indonesia is not in the position of crude steel over capacity. The domestic steel demand is rising, particularly augmented by government-led infrastructure development. Indonesia would require additional crude steel capacity to anticipate consumption growth of 22 mmt in 2025. On the other hand, Indonesia's current crude steel production, which stands only at 4.9 mmt/year, is only half of its capacity.

Despite the fact that the severe downward pressure on the global steel price has made it cheaper to import, we note that unfair trade practices increase to some extent of this importation. Due to intense unfair competition from this steel influx, local steel producers could not step up their production, leading to low capacity utilization rate and suffering. Indonesia supports the importance of fair trade to global markets to enhance market forces in the steel industry while also considering policy and trade measures in accordance with WTO rights and obligations that will be taken for legitimate public policy reasons.

Indonesia also seeks to increase the capacity through investment, since the national steel capacity is expected to be enhanced in the future. In line with this, we are committed to make better investment regulation including in the steel sector. We value investment as a tool to allow companies to transfer of technology and generating innovation in steel-making for a better quality and upgrading rather than on quantity. Innovation could help the industry move from a current situation of excess capacity to a more sustainable path in the future.

ITALY

133. The Italian steel market experienced a restructuring process in the period between the 80-90. One of the main results of such restructuring process was the shrink of the number of workers employed in the sector: in 1984 the Italian steel sector employed 124 thousand of workers and, ten years later, such number fell by more than 60% (45 thousand of workers). In the same period the crude steel production remained quite stable.

More recently, since 2009 Italian steel employment has experienced another downward trend with a constant shrink of the number of jobs till June 2017 (latest data available): from 37,6 thousand in 2009 to 34,1 thousand at the end of June 2017. Among others the main issue of such reduction is the pressure exacerbated by the excess of capacity of the sector that resulted in very significant levels of export at dumped prices. The current situation of the Italian steel sector is also certified by the loss of the turnover.

Since 2011 the Italian steel mill turnover fell from 25 Billion Euros to roughly 16 Billion Euros in 2016. Nevertheless, Italian steel mills operate in the respect of the Best Available Techniques in line with the Industrial Emissions Directive of 2010, with the most ambitious levels in the World.

JAPAN

134. Japan's steelmaking capacity was reduced significantly through 1980s and 90s after its peak (168 million tons) in 1977 (68 blast furnaces). Companies' own initiative has been decisive in structural adjustment, which includes closure of facilities and M&A, and they have continuously reorganized their production facilities in light of the market demand conditions and the objectives toward sound future development.

While reducing capacity, the structural adjustment in the industry has been accompanied by constant investments in R&D, energy conservation, environmental protection and workforce safety to improve the industry's competitiveness. Measures to ensure job security have also played an important role in the adjustment, which reassign employees to other business units and new businesses, such as new materials, electronics and ITs. The number of workforce at integrated steel mills dropped from 167,261 in 1970 to 34,698 in 2014.

Government measures encouraged steel companies' restructuring in the past. Temporary Measures Law on Stabilization of Structurally Depression Industries (1978-1983), and Temporary Measures Law for Facilitating Industrial Structural Adjustment (1987-1996) were enforced. According to the laws and regulations, the government designated specific industrial sectors, including steel sector, and provided incentives (e.g., lower rate public finance, deduction of corporate tax) for companies which carried out capacity closure/reduction.

Steel companies' swift and prompt action against the change in circumstances surrounding the industry has enabled the industry's sustainable growth. The industry has currently 26 blast furnaces in total and has kept its annual crude steel production on a level with 110 million tons for the decade.

KOREA

135. In the case of Korea, the steel industry is voluntarily reducing their crude steelmaking capacities, based on market principles. In particular, Korean steel companies are constantly pursuing restructuring focusing on electric arc furnaces.

Since 2014, Korea has reduced 5.72 million tons of crude steelmaking capacity.¹⁹ This accounts for more than 6% of Korea's total crude steelmaking capacity.

The Korean government legislated the Special Act on the Corporate Revitalization, to expedite support corporate restructuring in oversupply sectors. However, the Act is generic in nature, and is not specific to the steel sector.

According to the Act, companies reducing overcapacity may submit corporate restructuring plans. If such plan is approved, incentives such as employment stability measures and simplified merger and division procedures may be provided.

¹⁹ In Korea's Country Note, existing capacity data in 2014 (82.97 million tons) was measured as of year-end 2014. Capacity closures which took place in 2014 (4.7 million tons) have already been reflected in the 2014 existing capacity data. Korea's crude steelmaking capacity in 2016 has been reduced compared to year-end 2013.

LUXEMBOURG

136. The rise of Luxembourg's industry, whose beginnings date back to the middle of the 19th century, was mainly dominated by the iron and steel industries. The latter has long supported the national economy, until the steel crisis of the 1970s. In 1960, the steel and iron industries contributed to around 31% of Luxembourg's GDP. In 1974, the last of the "thirty glorious years" (1945-1975), the industry employed 25,000 people (including 14,379 workers that were engaged exclusively in production and maintenance) – accounting for 16% of Luxembourg's total workforce. In 1985, the number fell to 13,400 and in 2000, only 6,000 people were employed by the iron and steel industries. Steel production decreased from 6.5 million tonnes in 1974 to 3.7 million tonnes in 1990, an annualised reduction of 3.5%. In 1990, the relative share of the steel industry to GDP was only 11%, and by 2011, it barely reached 2%. In 1990, the steel industry employed almost 6% of the total national workforce, which decreased to 2% by 2010.

NETHERLANDS

137. Until 2016, the Netherlands used to have two steel producing companies, Tata Steel (the former Hoogovens and Corus Steel) in IJmuiden and Nedstaal in Alblasterdam near Rotterdam. At this moment, only Tata Steel is in existence. In 1992, Hoogovens in IJmuiden was forced to take cost-saving measures of almost 275 million Euro. This resulted in job losses for 7000 persons. In 2008 due to distress caused by excess capacity the company from IJmuiden (from 2007 on Tata Steel) cut production by 20%. This downturn led again to significant job losses – 800 persons in 2009, and up to 2014 a further 1000 jobs. At Nedstaal, 280 employees worked in 2008 and a turnover of almost 100 million euros was achieved. From 2009 on Nedstaal has suffered heavy losses due to excess capacity. Nedstaal was declared bankrupt on 31 January 2017. The priorities for the Netherlands are: (1) A global level playing field, which is an important condition for fair trade. Hopefully the GFSEC can play an important role to create this. (2) Innovation; this is essential to strengthen the competitiveness of the industry and to respond to societal challenges. In order to be and remain distinctive in the future, the Netherlands therefore focuses primarily on innovation and the development of high-quality chains with the steel industry as the basis. For this reason, the Netherlands is advocating for stimulating innovation and investing in breakthrough technologies such as Hlsarna.

POLAND

138. Poland, on the eve of accession to the EU, was obligated to restructure steel companies in order to properly prepare them to operate under conditions of the Community economy. Therefore, the year 2003 was the year of changes in economic and development characters, whose continuation was supposed to take until 2006 according to the *Program of Restructuring and Development of Steel and Iron Industry in Poland until 2006*. After that the steel sector was restructured, both in the technical and technological sphere and in the area of capacity and employment reductions. In the same time partial consolidation was made (Polskie Huty Stali SA) followed by subsequent privatization of steel plants. Nowadays Poland is the fifth largest steel producer in the EU and domestic steel production is dominated by large global players like ArcelorMittal, Celsa Group or CMC. There is no steel excess capacity in Poland. Poland is a net importer of steel - in 2016 trade balance was negative and amounted to 4.5 million metric tonnes of steel products. The employment headcount in the iron and steel industry decreased from 153 thousand in 1989 to 21 thousand employees in 2016. Currently, the steel sector in Poland is technologically advanced and is one of the most modern in the world in terms of energy efficiency and environmental requirements. Competition in the Polish market is disturbed, especially in the steel and metals distribution segment as increased imports from Eastern European (non EU) and Asian countries."

RUSSIAN FEDERATION

139. The Russia's transition from a planned to market economy in the early 90-ies of the last century was accompanied by a severe crisis in all the industries, including in the steel sector. So, whereas steel production in the USSR 1990 was about 154,4 million tonnes, only in Russia the volumes in 1994 have dropped to record minimum of 49 million tons and it stayed below 51 million tons until 1999. The protracted crisis in the Russian economy led to bankruptcy and closure of several steelmaking capacities which failed to survive in market competition. And only after profound modernisation of the domestic steel industry, the recovery of steel-consuming industries and the economy as a whole, Russian steel producers have been able to modernise capacities in accordance with international standards. At present the main task for Russian steel industry is to continue the work on implementation of environment -friendly best available technologies. The current situation with overcapacities harms all countries by declining prices for steel products and increasing unemployment. Thus the Global forum on steel excess capacities established in accordance with the Leaders communique approved in Hangzhou 2016 and in Hamburg 2017 is a unique mechanism to develop transparent and clear environment for open steel markets that will prevent any new crisis for this industry.

SLOVAK REPUBLIC

140. The Slovak steel sector, which in the production of metals and metal products is a significant GDP contributor (ensured the aggregation 15.4% of gross value added in industrial production), is an important employer in the high unemployment regions. Respecting the effect of distortive measures, Slovakia fully relies on market mechanism following the WTO rules, domestic and EU regulation. All companies operating in steel sector are private and compete on a level playing field irrespective of their ownership structure. There was also no closure or aid granted in order to facilitate the adjustment after any plant closure in Slovakia. There was a slight employment and sales drop in Slovak steel sector in 2015 – 2016. The employment fell by 5,2% in NACE²⁰ 241 – (manufacture of basic iron and steel and of ferroalloys) and by 2,2% in NACE 242 - (manufacture of tubes, pipes, hollow profiles and related fittings, of steel). Regarding the aggregated sales, there was a drop by 3,49% in NACE 241 and by 8,98% in NACE 242.

SOUTH AFRICA

141. In SA, the effects of steel excess capacity and the resulting steel crisis impacted the entire steel value chain as the iron-ore mines, primary steel mills, domestic manufacturers and fabricators, struggle to cope, sustain jobs and create an environment that encourages investments. Companies are finding it difficult to maintain profitability, achieve economies of scale and compete with the import penetration into the African region of both primary and downstream steel products. The trade deficit as well as job losses in the domestic steel sector have risen significantly. SA and countries in the African region have low steel consumption rates with aspirations to develop, grow and create jobs. It is hence important that any corrective measures put in place through the Global Forum do not limit the policy levers of small emerging market economies to preserve and grow our steel industries.

SPAIN

142. The steel industry in Spain employs some 80,000 people. In Spain, steel is manufactured in 20 steel mills and in 50 milling and first transformation facilities. Global overcapacity has led to a rise in steel imports, seriously affecting the Spanish steel industry. Imports from third countries have risen by 4.7% and

²⁰ NACE (Slovak Statistical classification of economic activities)



9% in 2016 and 2015, respectively. Spanish steel product exports have declined by 4% in 2016 and 12% in 2015. Global excess capacity in the steel sector has contributed to a sharp decline in production in Spain. In 2016, production decreased to 13.6 million metric tonnes, down from 14.8 million metric tonnes in the previous year, that is, an 8.6% decline. In 2007, the Spanish steel industry produced 19 million metric tonnes. As a result, several steelmaking plants have closed. These include steelmaking plants located in Azpeitia, Azkoitia, Legazpia, Bergara, Zumarraga and Madrid, accounting for a reduction of approximately 3.7 million metric tonnes of capacity. Many other steelmaking plants have dramatically reduced their output, in some cases down to 20% of their capacity. The Spanish steel industry operates in competitive and market conditions. Spain's government does not provide subsidies or any support measures with market-distorting effects, specifically aimed at the steel sector; neither does the government own steel enterprises or provide other types of direct aid or facilities to the sector. As part of the GFSEC, Spain expects substantial, concrete policy solutions to remove market-distorting support measures and calls for a swift implementation of the Hangzhou's and Hamburg's G20 Leader's Communiqués.

SWEDEN

143. Sweden welcomes the work of the Global Forum on Steel Excess Capacity. The current situation for the steel industry is complex. The Swedish steel industry is part of a larger context where every measure must be carefully chosen. Sweden shares the concern about problems which the steel industry is facing and stresses the importance of recovery in certain prices, not least in those products with a higher, more advanced quality. Measures proposed should aim at reducing global overcapacity. Sweden is a major steel exporter, and it is important for our industry that the steel crisis does not accelerate into a trade war. The needs of the steel user industries, as well as the importers and consumers must also be taken into consideration. Investments in research and development in order to achieve sustainable competitiveness could also be a priority. Sweden believes that a well-functioning energy market contributes to competitive energy prices and competitiveness. We welcome efforts to reduce carbon emissions in the steel industry.

UNITED KINGDOM

144. The UK has been significantly impacted by global overcapacity for a number of decades with a substantial reduction in supply, reducing from 17.1mt in 1998 to 7.6mt in 2016. However demand in the UK has remained relatively stable for the last eight years at around 10mt. The UK has longstanding regional policies and programmes of unemployment assistance to try and tackle the impact to those individual workers affected. Following the liquidation of SSI in Redcar in 2015, over 2,000 people lost their jobs overnight and the UK Government provided up to £80m funding for a locally-led Task Force to support those directly affected (workforce, supply chain and regional impact). This joint working has led to numerous new jobs being created (away from steel production), the creation of new businesses, and provision of training courses to support individuals re-skill and secure new employment opportunities. To ensure the industry is well positioned for the future, the UK Government recently commissioned independent research looking into the future capacity and capabilities of the UK steel industry. The report estimates the future domestic steel demand out to 2030 providing the sector with a clear evidence base to shape future investment decisions. The UK is an unequivocal champion of global free trade, but free trade does not mean trade without rules. Without fair trade, overcapacity will continue to be a serious threat to the prosperity of the steel industry.

UNITED STATES

145. Steel is a critical industry for the United States. To ensure the health of the U.S. steel industry, the United States has pursued policies enabling steelmakers to adjust capacity to respond to market forces such as changes in demand and technology. Those U.S. economic policies include: openness to fair trade (as the world's largest net importer of steel) and investment; research and development policies that encourage innovation; robust antitrust laws to ensure competition; non-discriminatory enforcement of strong labor and environmental regulations; enforcement of U.S. trade laws; transparent and efficient bankruptcy laws; and benefits and retraining for laid off workers.

In contrast to some other countries, these pro-competitive conditions have allowed U.S. steelmakers to make market-driven decisions to adjust, reduce capacity and exit the market, or to make new investments. The United States has not established central government plans, targets or subsidies to achieve the net expansion or reduction of steel capacity, because those approaches risk creating serious market distortions while resulting in unfair trade.

The dynamic nature of market adjustments in the United States has enhanced the competitiveness of U.S. firms. These policies have not been without costs: U.S. steel employment declined 33 percent over the last two decades, while steel production dropped 43 percent from its 1973 peak to 2016. This has reinforced the U.S. commitment to combat unfairly traded imports and address global excess capacity, particularly in view of the Global Forum's limited results. Unlike past U.S. administrations, President Trump intends to deal decisively with the problem.

ANNEX 3. G20 COMMUNIQUES

G20 Trade Ministers, Shanghai, 9-10 July, 2016, para 10

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from governments or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. The G20 steelmaking economies will participate in the global community's actions to address global excess capacity, including by participating in the OECD Steel Committee meeting scheduled for September 8-9, 2016 and discussing the feasibility of forming a Global Forum as a cooperative platform for dialogue and information sharing on global capacity developments and on policies and support measures taken by governments.

G20 Finance Ministers and Central Bank Governors, Chengdu, 23-24 July 2016, para 5

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from governments or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. The G20 steelmaking economies will participate in the global community's actions to address global excess capacity, including by participating in the OECD Steel Committee meeting scheduled for September 8-9, 2016 and discussing the feasibility of forming a Global Forum as a cooperative platform for dialogue and information sharing on global capacity developments and on policies and support measures taken by governments.

G20 Leaders, Hangzhou, 4-5 September 2016, para 31

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from government or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. To this end, we call for increased information sharing and cooperation through the formation of a Global Forum on steel excess capacity, to be facilitated by the OECD with the active participation of G20 members and interested OECD members. We look forward to a progress report on the efforts of the Global Forum to the relevant G20 ministers in 2017.

G20 Leaders, Hamburg, 7-8 July 2017, para 6

***Excess Capacities:** Recognising the sustained negative impacts on domestic production, trade and workers due to excess capacity in industrial sectors, we commit to further strengthening our cooperation to find collective solutions to tackle this global challenge. We urgently call for the removal of market-distorting subsidies and other types of support by governments and related entities. Each of us commits to take the necessary actions to deliver the collective solutions that foster a truly level playing field. Therefore, we call on the members of the Global Forum on Steel Excess Capacity, facilitated by the OECD, as mandated by the Hangzhou Summit, to fulfil their commitments on enhancing information sharing and cooperation by August 2017, and to rapidly develop concrete policy solutions that reduce steel excess capacity. We look forward to a substantive report with concrete policy solutions by November 2017, as a basis for tangible and swift policy action, and follow-up progress reporting in 2018.*

ANNEX 4. TERMS OF REFERENCE OF THE GLOBAL FORUM ON STEEL EXCESS CAPACITY

The terms of reference emanate from the call for a Global Forum on Steel Excess Capacity by G20 Leaders at the 4-5 September 2016 meeting in Hangzhou, China, who stated in paragraph 31 of their Communiqué:

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from government or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. To this end, we call for increased information sharing and cooperation through the formation of a Global Forum on steel excess capacity, to be facilitated by the OECD with the active participation of G20 members and interested OECD members. We look forward to a progress report on the efforts of the Global Forum to the relevant G20 ministers in 2017.

Mission

As described in, and based on paragraph 31 of the Hangzhou Summit G20 Leaders' Communiqué, the Global Forum (GF) would:

- Ensure increased and effective communication, information sharing and co-operation between its members in the areas mentioned in paragraph 31 of the G20 Communiqué.
- Take effective steps to address the challenges of excess capacity so as to enhance market function and encourage adjustment.
- Report on the progress of the GF's work to the relevant G20 ministers in 2017 and yearly thereafter.

Membership

The members of the GF are all G20 members and interested OECD members (see enclosed List). All GF Members participate on an equal footing.

Structure

Decisions by Global Forum members, who participate on an equal footing, are taken on the basis of consensus.

For its effective functioning, the Global Forum requires a Steering Group. This is composed of no more than nine members, the eight largest steel-producing economies²¹, plus the incumbent G20 Presidency. The incumbent G20 Presidency and two members of the Steering Group will serve as the Chairs of the Global Forum, as selected annually by the Global Forum members, taking into account a member's willingness to serve, production and capacity, and the balance between regions and developing and developed members.

21. China, The European Union, Japan, India, The United States of America, Russia, Korea and Brazil

To achieve its mandate, the Global Forum will convene at least twice per year, at the senior official and high level, as necessary.

The GF may invite relevant experts, economic operators, academia, and international organisations to provide input, as warranted and on a consensus basis.

Facilitator

As described by paragraph 31 of the Hangzhou Summit Leaders' Communique, the OECD would facilitate the work of the GF, its Steering Group and Chairmanship. Its functions include technical, analytical, and meeting facilitation, as requested by the Global Forum.

Expenditures

The expenditures of the Global Forum shall be financed by its members. Funding shall take place through:

- Voluntary contributions; and/or
- A scale of contribution to be agreed by the members of the Global Forum.

Duration

The duration of the Global Forum will be 3 years. The duration can be extended based on the consensus of the members.



List of members (OECD members to date)

1. Argentina
2. Australia
3. Austria
4. Belgium
5. Brazil
6. Canada
7. China
8. European Union
9. Finland
10. France
11. Germany
12. Greece
13. Hungary
14. India
15. Indonesia
16. Italy
17. Japan
18. Luxembourg
19. Mexico
20. Netherlands
21. Norway
22. Poland
23. Russia
24. Saudi Arabia
25. Slovak Republic
26. South Africa
27. South Korea
28. Spain
29. Sweden
30. Switzerland
31. Turkey
32. United Kingdom
33. United States

