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**CENTRE FOR CO-OPERATION WITH NON-MEMBERS
STEEL COMMITTEE**

Emerging Market Economy Forum

WORKSHOP ON STEEL TRADE ISSUES

BACKGROUND AND ISSUES PAPER

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BACKGROUND AND ISSUES PAPER

Perspectives on steel markets and trade

Principal issues:

- Asia-Pacific area: How will the economic crises in this area affect steel consumption, production and trade? How will investment and capacity (in steel) be affected? Will fundamental changes occur in the way governments and the industry view the future for the steel industry? What new strategies are being considered? What are the implications for other countries, both within and outside the Asia-Pacific area?
- CIS area: To what extent will CIS steel producers continue to rely on exports to maintain their operations? With demand prospects for the Asia-Pacific area in doubt, what alternative markets are available? Concerns have been expressed in many countries about CIS steel exports. What problems are occurring and what trade and adjustment policies can be pursued to improve the situation?
- World steel trade: What are the prospects for world steel trade? Are the objectives being pursued by companies and countries compatible, or are further tensions likely? What are the principal problems or challenges in world steel trade today?

Market and trade situation

1. Buoyed by strong or growing markets in Europe, Asia and the Americas, world steel consumption reached a record level in 1997. Virtually the only area continuing to experience weak conditions was the area comprising the former Soviet Union, where countries relied heavily on exports to maintain production. Despite the strong market, price increases, where they occurred, were modest.

2. Prospects for 1998 have been scaled back in light of the economic problems now facing a growing number of countries in the Asia-Pacific area. With public spending on infrastructure to fall sharply in the affected countries, steel consumption is likely to follow suit. Consumption in the OECD area, on the other hand, should continue at the 1997 level, while moderate growth is likely elsewhere. On balance, world steel consumption could grow slightly during 1998. In the field of steel trade, exports to the Asia-Pacific region from other areas are likely to decline, while lower consumption, combined with currency devaluations, could well lift steel exports from the area.

3. As regards steel trade policies, reductions in tariff and non-tariff barriers have accompanied the structural changes that have occurred in the industry. These reductions, together with the initiatives that have been undertaken to deregulate economies, have greatly liberalised steel trade. This has tended to open markets up to greater competition. Trade has in fact increased as a result, rising from 17 per cent of production in 1990 to 26 per cent in 1996 (excluding internal EC trade). At the same time, trade has become more volatile, with sizeable shifts occurring with greater frequency in trade flows over relatively short periods of time.

Issues

4. How durable are the strong markets in Europe and the Americas? Has a cyclical peak been reached, or is further growth likely? How significant are any downturns likely to be? Are there signs of a sustainable recovery in the CIS area? How will the economic crises in the Asian-Pacific area affect steel consumption there? What is the situation with respect to steel prices, and what are the prospects? What are the longer term prospects for steel markets in key consuming areas?
5. Turning to steel trade, how representative are current trade flows? How are the trade flows likely to change in the short and longer term? What effects do trade policies, subsidies, dumping and changes in exchange rates have on steel trade?
6. What are the factors underlying the increased volatility in steel trade? To what extent will this diminish or increase in the future?
7. How do steel producers, consumers and intermediaries (such as trading companies and service centres) influence steel trade flows? What are their respective roles? How has the manner in which steel has been traded changed over time? How is it likely to change in light of the globalisation of steel consuming industries?
8. How has the rapid development of communication and information technology affected steel trade?
9. How price-sensitive is steel trade? To what extent does price-sensitivity vary among products? How has this changed over time and how is it likely to change? What proportion of steel trade can be characterised as “commodity-oriented” (i.e., marketed on the basis of general standard specifications, for resale), as opposed to “end-use oriented” (i.e., manufactured and sold to order, to a specific end-user)? Steel has often been characterised as being “trade-sensitive”. To what extent and in what ways is this true?
10. How are the global purchasing strategies being pursued by some major steel consuming companies affecting steel trade?
11. Trade in semifinished steel has expanded significantly through the years. The largest markets for the semifinished steel have been developing countries that have not built primary steelmaking facilities, and certain developed countries, where closure of integrated plants has given rise to a growing need for semifinished steel. What is the current situation vis-à-vis semifinished steel, and what are the prospects? How will efforts to reduce greenhouse gas emissions affect the situation?
12. To what extent is trade in steel likely to become more specialised, on a country-by-country basis? To what extent will the OECD countries, for example, increase exports of the more demanding steel products while increasing imports of commodity grade products? And to what extent will the developing countries experience the opposite?
13. How will developments in steelmaking technology affect steel trade? Will advances in steel minimill technology, for example, result in more localised production of steel products, and therefore in less trade? Or will such advances result in a resurgence in steelmaking in developed countries, as seems to be the case in the United States?

The situation in steel trade: Country reports

Principal issues
<ul style="list-style-type: none">• What role are steel exports and imports currently playing in countries? What are the overall government trade objectives for the sector? How are import and export levels likely to change?• What trade and trade-related policies are governments pursuing in steel in support of their industries? What trade measures are currently in effect in steel?• To what extent are steel companies in countries benefiting from government assistance (such as loans on preferential terms, grants, tax concessions, etc.)?• How are the policies being pursued in steel affecting competitive conditions in the industry? What are the effects on trade, producers and consumers?

14. The situation in steel trade varies considerably among countries and regions, as do the trade policies and objectives being pursued by governments. Participants in the workshop will be provided with an opportunity to exchange views and information on their specific situations and policies.

15. Reports could cover issues such as:

- trade policy objectives in steel;
- the structure and volumes of steel imports and exports during 1995-97, and the outlook for 1998 and 1999;
- trade remedies taken (antidumping, countervailing duty and/or safeguard measures)
- government assistance to steel;
- steel tariff levels;
- non-tariff measures applicable to steel imports or exports; and
- trade agreements and negotiations.

[For information, participants in the OECD's Steel Committee are currently providing related information on these items to the Secretariat through a questionnaire. A copy of the questionnaire has been placed on the Workshop Internet site; it is also available from the Secretariat, upon request.]

Steel trade and globalisation

Principal issues
<ul style="list-style-type: none"> • What are the forces driving the growth in global alliances in steel? Is this growth likely to continue? If so, in what forms? • How is the growth in global alliances likely to affect competitive conditions in the industry? Will it weaken or strengthen competition? How will it affect industry efficiency? How will investment be affected? What policy issues need to be addressed in this regard?

Background

16. While the steel industry has a long tradition of sourcing raw materials and technology globally, and a long tradition in trading finished products, it is generally considered to have lagged behind other industries in globalising its operations. While global alliances have long existed, it has been in a relatively limited sense. This has been due in part to the strong ties that many companies have had to national governments, and the significant role that governments have therefore played in the industry -- a situation that has tended to discourage outside investors. This situation began to change, however, during the 1980s when Japanese steel producers entered into joint ventures with major US integrated steelmakers, with a view towards enhancing their ability to service the needs of the Japanese automakers that were establishing production facilities in the United States. Korea's POSCO followed suit in the mid-1980s, when it entered into a major joint venture on the west coast of the United States, with a view towards expanding its market presence in the western US market.

17. The process accelerated during the late 1980s and 1990s, when attention shifted to the rapidly expanding economies in the Asia-Pacific area. During the last several years alone, foreign investors have been involved in projects in which billions of dollars have been spent, or will be spent, in China, Thailand, Vietnam, Indonesia, and elsewhere. As was the case in the United States, some companies are investing so as to service clients which are expanding operations in the Asia-Pacific area. In such instances, semifinished steel products (including slabs, hot-rolled bands and/or cold-rolled sheet) are often expected to be supplied from sources in the investing country. In other instances, it appears that companies are investing with a view towards profiting from the enormous growth in steel consumption that has been occurring in the area, using their acquired experience and technical skills to their advantage. Most of the alliances that have been formed have been in the form of joint ventures.

18. More recently, foreign capital has been attracted to companies in Latin America and central and eastern Europe, where privatisation and accompanying economic reforms are creating advantageous investment climates. In these instances, favourable market prospects and costs appear to be driving the investment. In addition, industry restructuring in western Europe is resulting in a growing number of cross-border ties between firms. In this case, the motivation appears to be the strengthening of competitiveness through the rationalisation of facilities and the fuller exploitation of the synergies between companies.

Economic and financial aspects of global alliances

19. There is general consensus that globalisation is a beneficial process that should be supported by governments, which, in turn, should work together to strengthen the multilateral system in relevant areas so as to assure favourable outcomes.

20. In the case of steel, global alliances could be beneficial as they could help to:

- increase industry efficiency, to the extent that investment capital flows to areas where it is most productive;
- reduce overcapacity, to the extent that the alliances promote the rationalisation of inefficient facilities;
- improve servicing capabilities, to the extent that companies improve their flexibility in meeting the needs of multinational clients;
- build support freer trade in steel, to the extent that companies require, and therefore become more forceful advocates of, open markets; and
- advance research and development more rapidly, to the extent that companies pool their resources more effectively in this domain.

21. On the other hand, there are concerns that such alliances could have unfavourable effects on some, to the extent that:

- investment is directed to low cost areas where environmental regulations are low or lax, and/or where labour standards are deficient;
- governments distort competition by trying to attract investment to their areas by offering attractive investment incentives (in the form of preferential tax treatment, special loans, grants, etc.);
- companies controlled by foreign entities are not held fully accountable for their operations in the host country (e.g., in the area of pension obligations and the like);
- companies expand capacity in foreign countries while maintaining redundant capacity in their home countries -- a situation that could result in overcapacity.

Issues

22. What have been the results of the global alliances that have been in place for some time? To what extent have the original objectives been achieved? What sorts of challenges have been met by investors and host governments, and how have they been addressed?

23. To what extent is the globalisation process likely to continue? With a high percentage of previously state-owned firms already in private hands, will interest be subsiding? Will the severe economic problems that have occurred in the Asia-Pacific area similarly slow foreign investment in this

part of the world? Or will the pressures to rationalise operations lead steelmakers to form more cross-border alliances, as seems currently the case in western Europe?

24. With conditions in central and eastern Europe improving, steelmakers from outside the area have expressed increased interest in investing in the region. How great is this interest likely to be? When, or under what conditions, are we likely to see globalisation stretch further eastward, to Russia and Ukraine?

25. During the 1980s, globalisation in steel did not have much of a regional character (e.g., Japanese investment in the United States). This seems to have changed during the 1990s, particularly in the Asia-Pacific region. Recent reports suggest that broader interest (in a geographic sense) may again be growing. Why?

26. What are the implications of the globalisation for the industry? Will it result in more localised production and consumption of steel products, or will companies use the foreign facilities as new bases for international sales? How will it affect the sales of the foreign investors who are themselves steel producers? Will it, for example, reduce their exports of finished steel, or will companies increase exports of semifinished steel feedstock to the foreign firms (for cold-rolling, coating, and the like)?

27. What are the economic and social costs and benefits of globalisation? Who will tend to be the winners and losers? How can the benefits be maximised and the costs minimised? What is the role of governments in this regard?

28. How will the globalisation affect competitive conditions in the industry? To what extent will competition be heightened? Or are there dangers that competition will become more restricted with the growing global arrangements? What effects will the global alliances have on investment in the industry--will investment, for example, tend to be allocated more efficiently?

29. In what ways are the global alliances affecting the government's and industry's views about trade? Is the process tending to contribute to a longer term solution to the industry's long-standing trade and adjustment problems, or is it raising new issues?

30. What roles are governments playing in facilitating and/or regulating the terms under which globalisation is taking place? What policy issues have been raised in countries, and how are these issues being addressed?

Market access and trade facilitation issues

Principal issues
<ul style="list-style-type: none"> • How will the changes that have been made in the rules governing international trade (as a result of the Uruguay Round) affect steel trade? In particular, what effects will the new agreements on safeguards, antidumping, and subsidies and countervailing measures have on trade and competition in steel? To what extent are dumping, subsidies and informal trade restraints currently affecting steel trade? • What other issues need to be addressed in the field of steel trade at the national and/or multilateral levels? • How can the gains from freer trade in steel be maximised? What complementary policies are needed to facilitate adjustment in areas where the industry will contract? • What are the principal impediments to freer trade in steel? How can governments and producer and consumer interests work more effectively together to overcome these impediments?

Uruguay Round and steel

31. The multilateral trading system was strengthened significantly with the successful conclusion of the Uruguay Round in 1994. In addition to reducing bound tariffs, countries entered into a number of agreements and understandings, many of which have significance for steel. These include the:

- *Agreement on Implementation of Article VI of the General Agreement on Tariffs and trade 1994* (antidumping), which provides for greater clarity and more detailed rules in relation to the method for determining whether a product is dumped, the criteria to be taken into account in a determination that dumped imports cause injury to a domestic industry, the procedures to be followed in initiating and conducting anti-dumping investigations, and the implementation and duration of anti-dumping measures.

The dumping of steel has posed problems for the industry for many years. Measures taken to address the problems have often proved controversial. How will the new rules that have been adopted affect steel? To what extent will they discourage dumping? How are the new rules likely to affect the outcome of cases?

A review of trade developments in recent years indicates that dumping has become a more common problem in world steel trade, as evidenced by the more widespread use of antidumping procedures by countries. What are the factors giving rise to this phenomenon? Is it a short term phenomenon, or are there longer term implications?

What issues have yet to be addressed?

- *Agreement on Subsidies and Countervailing Measures*, which defines subsidies more precisely, establishes guidelines on the types of subsidies are “actionable”(i.e., the types of

subsidies that could be subject to countervailing duties) and which are not, and sets out disciplines on the initiation of countervailing cases, investigations by national authorities, rules of evidence and criteria to be considered in evaluating injury.

In its work, the Steel Committee has noted that the industry's trade problems have been symptomatic of the lack of sufficient structural adjustment in the industry. The situation has been affected by the considerable assistance that governments have provided to companies to support new and existing capacity. As companies have been privatised, governments have become less inclined to provide assistance, at least on the same scale. Special investment incentives, however, continue to be given. Moreover, it is not clear how governments might respond if major steel producers were faced with bankruptcy. Because of the magnitude of the industry and the jobs it provides, the tendency might still be to intervene with state aids.

To what extent and in what forms are steel companies still being subsidised? How are these subsidies affecting competitive conditions in the industry? How will the new agreement on subsidies and countervailing measures affect the situation? In the agreement, certain subsidies -- including aid to disadvantaged regions, assistance for research and development and assistance for adapting existing facilities to meet new environmental requirements -- have generally become non-actionable, provided certain criteria are met. How significant are these exceptions? To what extent could related subsidies be classified under these three areas?

What issues still need to be addressed in the field of subsidies?

- *Agreement on Safeguards*, which breaks major ground in establishing a prohibition against so-called "grey area" measures, and in setting a "sunset clause" on all safeguard actions, and which sets forth guidelines for conducting investigations and applying remedies.

Governments have often preferred taking "grey area" measures in steel, to applying GATT-sanctioned remedies. How will the prohibition of these grey area measures affect matters? Will antidumping, countervailing duty and safeguard actions become more common? How are the changes that were made to multilateral guidelines for safeguard actions likely to affect their use? Now that countries might not have to provide *compensation* in return for safeguard actions and now that countries could apply safeguard remedies on a *selective* basis, will safeguard measures become a more desirable policy tool?

It has been argued that elements of tightened access to safeguard measures, combined with the failure to tighten controls substantially on antidumping actions, raise the possibility that governments will turn to antidumping and/or countervailing duty actions to obtain *de facto* trade restrictions (in lieu of grey area restraints). To what extent is this likely in steel?

How difficult could it be to enforce the prohibition of informal trade restraints, given their nature? How can governments guard against industries entering into trade-restricting arrangements, particularly if such arrangements are pursued without the knowledge of the governments involved?

32. In addition to the three agreements mentioned above, the Uruguay Round addressed numerous other issues that could have implications for steel trade. Further information on these issues is contained in Annex 1.

Other issues

- While some trade barriers (such as tariffs) have been reduced or eliminated, others (such as antidumping measures and the like) have increased. On balance, is steel trade becoming more or less restricted? What is the outlook? To what extent has the lowering of barriers increased competition? To what extent is this increased competition raising the likelihood of trade friction? In what forms is future friction likely?
- Asia-Pacific countries affected by the recent economic crisis are now finding it difficult to finance steel trade. How significant are financing problems in this, and other, areas? How are the problems being addressed?
- In what ways are shifts in exchange rates affecting steel trade? How are companies addressing the challenges associated with exchange rate changes?
- What are the principal impediments to steel trade currently? What are the principal challenges to freer trade? Some have argued that the progress that has been made in liberalising trade could be undermined by private anti-competitive actions taken by companies. To what extent is this a valid concern in the case of steel? To what extent is it already occurring? How can policymakers work towards identifying and taking action in such instances?
- Increasing interest is being expressed in examining the effects of national competition policy on trade. Some countries, for example, would like this issue to be addressed in the next round of multilateral trade negotiations. What issues in the field of competition policy are of particular importance in the case of steel?
- In addition to restrictions on scrap exports, what other types of measures are being taken by governments to provide indirect assistance to their steel industries? What effects are such measures likely to have on competitiveness and trade?
- What effects are regional agreements and programmes -- such NAFTA, Mercosur, APEC and the agreements underpinning the European Union -- having on steel trade, and what are the prospects?

ANNEX 1
OTHER URUGUAY ROUND-RELATED ISSUES

1. In addition to the three agreements mentioned above, the following Uruguay Round agreements may have implications for steel trade:

- *Agreement on Technical Barriers to Trade*, which seeks to ensure that technical negotiations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade.

In the past, steel trade has been affected by standards requirements. To what extent does this continue to be the case, and how will the situation change as a result of the agreement on technical barriers? What issues have yet to be addressed in the case of steel?

- *Agreement on Trade-Related Aspects of Investment Measures (TRIM)*, which provides that no contracting party shall apply any TRIM inconsistent with Articles III (which concerns national treatment) or XI (prohibition of export restraints) of the GATT.

With global alliances in steel expanding, issues related to conditions placed foreign investment could become more common. What is the current situation, and how is it being affected by the TRIM agreement? What issues have yet to be addressed?

- *Agreement on Rules of Origin*, which aims at long-term harmonisation of rules of origin, other than rules of origin relating to the granting of tariff preferences, and to ensure that such rules do not themselves create unnecessary obstacles to trade.

With the growing trade in partially processed steel growing (i.e., slabs for hot-rolling, sheets for cold-rolling and processing, etc.), issues related to establishing a country of origin for a finished steel product are becoming more complex. The determination of country of origin can be important, as it can affect the tariff applicable to a product, and whether a product is subject to a trade remedy (such as an antidumping or countervailing duty).

How significant are country of origin issues currently to the industry, and how might their importance change over time? How could the rules adopted by countries affect steel trade? Will they, for example, affect the level of trade in intermediate products, and, if so, how? What issues have yet to be addressed?

- *Understanding on Rules and Procedures Governing the Settlement of Disputes*, which provides greater automaticity and stronger rules in dispute settlement proceedings, while emphasising the importance of consultations in resolving the disputes.

- *Agreement on Government Procurement*, which establishes an agreed framework of rights and obligations among countries with respect to their national laws, regulations, procedures and practices in the area of government procurement (note: this agreement was not part of the “single undertaking” -- so it applies only to countries that “signed on”).

How important is government procurement to steelmakers (in terms of sales)? How closed has the procurement market been to non-nationals, and how is the situation likely to change as a result of the new agreement? To what extent do sub-federal practices differ from federal practices? What issues have yet to be addressed?

2. All of the Uruguay Round agreements cited, except for the *Agreement on Rules of Origin*, contain special provisions benefiting developing countries. Moreover the *Agreement on Subsidies and Countervailing Measures* has special provisions benefiting countries in the process of transformation from centrally-planned into market economies. A *Decision on Measures in Favour of Least-Developed Countries* provides further flexibility in all GATT/WTO agreements for the least-developed countries.

- How significant are the special provisions benefiting developing countries and the countries in transition to market economies? How are the special provisions likely to affect steel trade? To what extent are support measures still needed to facilitate the development of the steel industry in developing areas?

3. Although some 132 countries are currently members of the World Trade Organisation, a number of major steel producing and trading countries have not yet joined. How does trade in steel between WTO member and non-member countries differ? For those countries in the process of joining the WTO, are there accession issues involving steel? How is steel trade likely to change once these countries have joined the WTO?