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Emerging Market Economy Forum

WORKSHOP ON STEEL TRADE ISSUES

**PERSPECTIVES ON STEEL MARKETS AND TRADE
STATEMENT BY MR. GORDON MOFFAT**

The Workshop will be held in Paris on 27-28 May 1998.

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**WORKSHOP ON STEEL TRADE ISSUES
PERSPECTIVES ON STEEL MARKETS AND TRADE:
STATEMENT BY GORDON MOFFAT, DIRECTOR, EUROFER
PARIS, 27-28 MAY 1998**

1. The situation in general economic terms in the European Union is relatively positive, with rising industrial activity and growing confidence on the part of industry and consumers. The signs of economic upturn are quite evident in most major continental economies.
2. Last year growth was largely export-led. This year growth in internal demand will be the key to the economic expansion which is expected.
3. This is being led by a strong growth in investment levels which will nearly double this year to 4.4 per cent growth and which are expected to further accelerate to over 5 per cent growth next year.
4. Despite persistent concerns as to the possible effects of the financial turbulence in SE Asia it does seem likely that the strength of internal demand in the European Union will be more than sufficient to offset any negative economic effects of the SE Asian crisis on the general economy.
5. This is also the view of the European Commission which, as expected, has revised downwards slightly its outlook for GDP growth for 1998 from 2.9 per cent to 2.8 per cent to take account of the impact of external factors. This revision downwards is very slight. GDP growth is still strong and the Commission expects it to accelerate even further next year to 3 per cent or more.
6. The general economic situation therefore is positive, inflation is low at about 2 per cent, capacity utilisation is (at 83.4 per cent) at high levels and rising and business confidence is improving helped by growing expectations that the single currency project will go ahead on schedule and the budget discipline now being achieved by governments should allow additional measures to stimulate economic growth this year or next.
7. Having said that, a key element of the future development of the economic situation will be the success of the Japanese government in tackling the problems in their economy. The sharp reduction in steel consumption in Japan by all major consuming sectors is giving real reason for concern. A slide into deep recession would have a disastrous impact not only on the region itself but globally.

Development of certain elements of the European Union economy (EUR 15)
- Yearly variations -

	1995	1996	1997	1998 (estimate)	1999 (forecast)
GDP	2.5	1.6	2.7	2.8	3.0
Internal demand	2.2	1.4	2.3	2.8	3.0
Investments	3.6	1.3	2.3	4.4	5.4
Exports	7.4	4.5	9.0	7.1	6.8
Imports	6.6	3.6	8.1	7.5	6.9
Employment	0.5	0	0.4	0.8	1.1
Unemployment rate	10.9	11.1	10.7	10.2	9.8
Inflation	3.0	2.7	2.1	1.9	2.0
Gross public debts (in % of GDP)	71.2	73.5	72.0	70.5	69.0

Source: Commission data of March 1998

Steel Market

8. The outlook for the steel market in Europe at present is also rather positive as far as internal demand is concerned. Prospects are however more mixed than for the economy in general. Again there are considerable concerns as to the eventual impact of the situation in SE Asia on the steel market in Europe - looking at imports and exports it is clear in fact that the crisis in SE Asia is already impacting on our markets and the level of imports which we are now seeing risks compromising the healthy development of the European market. Nevertheless, as far as the first half year is concerned we have seen sustained growth in demand from the main steel consuming sectors although the recovery in the construction sector is proving to be slower than expected even if there are now some signs of public infrastructure programme restarting and some signs of commercial and industrial construction improving.

9. Other sectors such as automotive and mechanical engineering are doing extremely well at the moment.

10. Prospects for the remainder of the year are favourable: markets in Europe will remain strong reflecting improving consumer confidence and rising industrial activity and investment levels, particularly for machinery and component manufacturing.

11. Overall output growth in the steel using industries is expected to increase by 4 per cent in the 1st semester of this year and to show continued strength into the second half of the year. For the year as a whole real consumption should improve by perhaps 3 per cent overall. There are very few signs of any slowdown at present but we do expect a slight flattening of the demand curve at a very high level in the second half of the year.

12. So underlying demand is strong.

13. This is reflected in prices which are at healthy levels for most product categories although increasingly under pressure from imports and by deliveries which increased extremely strongly last year, by over 10 per cent largely in response to the need to replenish stocks which had been drastically reduced

in the course of 1996. We are now seeing a levelling off of delivery levels which are hopefully returning to the level of real demand growth. Stocks at the moment are seen as being at very high level but given the strength of demand they are not seen as excessive.

14. Turning to the **development of trade**, it is clear that this positive picture of the European Union steel market would have, at any time, carried its own dangers of a rise in imports. What we are seeing now though due to the downturn in Asian markets is a clear displacement of trade flows. A displacement which is complicated for us both by the European Union's relations with the countries of central and eastern Europe and the particular situation currently faced by the countries of the former Soviet Union.

15. There was already a significant increase in **imports** in 1997, particularly in the second half of the year for flat products. Imports overall taking into account only ECSC products increased by 17 per cent to 13 million tonnes.

16. This trend is continuing in 1998. All available evidence points to an acceleration of imports particularly from the ex-USSR, ex-Yugoslavia and particularly from the countries of central and eastern Europe and Turkey. Available figures for this year show an increase already of imports of third countries of almost 40 per cent compared to last year.

17. Tonnages direct from Asia on our markets have increased and are now accelerating rapidly. Of more concern is the fact that they are concentrating their deliveries on certain products, principally flat products and on certain markets, notably Italy. It's taken some time for import levels from that region to gain momentum but already in the last quarter of last year we began to see the arrival of tonnages. Imports in the last quarter increased by about 125 per cent. Last year we had imports from Asia of roughly 540 kt.

18. This year we have imports which, if the same level which has been experienced in the first months of the year is maintained, will be over 1.5 million tonnes.

19. More importantly at this time we are seeing a massive increase in tonnages from other regions on our markets of material which would originally have been destined for Asia.

20. In tonnage terms the largest exporters to our markets are now the CEEC which account for nearly 45 per cent of all third country imports - exporting over 5.5 million tonnes a year to our markets. Last year alone they increased their exports to our markets by over 19 per cent. There are absolutely no restrictions on imports into the European Union from the CEEC - indeed all imports are now at zero tariffs. In contrast our exports to them are in many cases still subject to tariffs. The complicating factor for us is that for political reasons, many of these countries now being on an accession course to become members of the European Union they are therefore, as far as access to our markets is concerned, in a privileged position. This makes countering such increases in imports problematic even if recourse is made to trade measures as a final resort. There have been of course significant increases in imports from the CEEC onto our markets for several years. Since 1993 their exports to us have grown from under 2 million tonnes a year to 5.5 million tonnes, an increase of over 155 per cent. This phenomenon though has noticeably increased since the middle of last year. We have tonnage increases in the first months of this year of over 40 per cent. Taking into account that the East European steel industry delivered about 30 per cent of their exports to Asia you can imagine the volumes looking for an outlet.

21. Equally, we also expect that imports from the CIS will rise as a result of the SE Asian crisis. A large proportion of their exports went to these markets and now require new outlets. We saw increases in imports from the CIS last year of over 50 per cent and this has continued this year.

22. As regards the potential developments regarding the CIS area, we don't doubt that the steel producers in that region will continue to rely on exports for still some time in order to maintain their operations. Unlike many of the CEEC which have begun to see improvements in their consumption of steel products and a revitalisation of their industrial sector the CIS countries have not yet in many cases even reached the point of economic stabilisation. Internal consumption has fallen dramatically in Russia and the Ukraine for instance and the industries there export a significant percentage of their production.

23. The SE Asian crisis has therefore thrown a new complication in their path by significantly reducing their sales opportunities in that region. It has to be pointed out however that in many instances the sales of the producers of the CIS had already been curtailed by the spate of anti-dumping actions against them, often in SE Asian countries, which had in any case effectively closed markets for some products to them. This more than anything else has led to the transfer of CIS material onto the European and other markets.

24. Our commercial relations with the major economies of the CIS are governed by the bilateral agreements which were concluded between the European Union and Russia and the Ukraine in 1997 which for 5 years establish quantitative limits, which are progressively increased, on their exports of certain of the products which they deliver on our markets.

25. As can be seen from the increases of exports to our markets last year and this year, these quantitative limits are fairly limited in coverage and quite non-restrictive as regards quantities but nevertheless they do provide us with some security against any surge in exports not least due to the clauses in the agreements which allow for consultations should problems arise in trade flows.

26. Apart from this aspect of security which is not negligible given the enormous capacities in these countries and the collapse of internal consumption there the real aim of the bilateral agreements was to guarantee market access for the producers of these countries. That is to say that for a limited period, 5 years, which is expected roughly to correspond to the transitional period in which they will rebuild their industrial infrastructure and their own internal steel consumption the agreements maintain their access to our markets albeit with some slight restrictions. The alternative would have been their exposure to trade measures should they have increased their presence on our markets in a disruptive fashion. This of course has been their experience on other markets with the result that often quantities have been diverted from one market to another.

27. It seems to us therefore that the solution adopted by the European Union is the most equitable, the most balanced and from a trade flow point of view the most pragmatic solution to the problem which their industrial transformation is posing.

28. On the other side of the coin regarding trade matters and the effects of the Asian situation, along with the large increase in imports we are now seeing our own export opportunities restricted. Our trade balance last year significantly deteriorated, by about 40 per cent. **Exports** decreased by about 4 million tonnes (16 per cent), in 1997 to 22 million tonnes. Exports to the main markets which interest European Union producers fell on the whole. To the USA exports fell by 18 per cent, to Canada by 26 per cent and to Asia by 31 per cent (SE Asia 45 per cent). Asia in the past has represented about 30 per cent of our exports so a fall of this magnitude is important and demonstrates that the Asian crisis is already impacting on our business. First available figures for this year in fact point to a continuation of this trend. Prices on export markets are under pressure due to the Asian crisis especially the low grade volume products. European mills however with reduced tonnage are concentrating on quality steels and niche products and so are able to get higher prices on export sales than for ordinary products.

29. So to conclude, Mr. Chairman, it seems clear to us that the main effect of the downturn in SE Asia will be displaced trade flows combined with an acceleration of direct Asian exports to our markets. This situation is dangerous. A massive displacement of trade flows brings not only instability to the market concerned but could provoke defence measures and trade conflicts. We are monitoring closely the development of imports onto our markets and will not hesitate to resort to trade measures if we see evidence of injury. While in economic terms the overall impact of the Asian situation is likely to be limited if growth in our own economy remains strong, as far as the steel market is concerned the effect is already being felt and brings with it the danger of increased pressure on markets and increased price volatility.