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CCNM/EMEF/SC(98)11



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

OLIS : 22-May-1998
Dist. : 25-May-1998

Or. Eng.

CENTRE FOR CO-OPERATION WITH NON-MEMBERS
STEEL COMMITTEE

Emerging Market Economy Forum

WORKSHOP ON STEEL TRADE ISSUES

THE SITUATION IN STEEL TRADE: COUNTRY REPORTS
STATEMENT BY MR. TETSUYA SATO

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

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THE SITUATION IN STEEL TRADE: COUNTRY REPORTS
STATEMENT BY TETSUYA SATO, DIRECTOR,
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PARIS, 27-28 MAY 1998

Trends in the Japanese economy

1. The Japanese economy has been in the grip of a recession since the summer of last year as the slowdown in consumer spending and a decline in housing investment due to the termination of the temporary income tax cut and a consumption tax increase in April 1997 have been more serious than anticipated.

2. The recession has continued into this year. In the industrial sector, inventories are staying on a plateau reflecting the stagnation of final demand. Industrial production has been declining recently. The index of manufacturing production forecast declined 2.5 per cent month to month in March, and declined another 2.5 per cent in April. Corporate profits sagged as a whole.

3. The growth of exports has slowed down because exports to Asia, the main foreign market, have declined. Imports remained flat on the whole.

4. The household sector, which has been in increased difficulty since last year, and gloomy business sentiment affected the real economy, and the unemployment rate rose to a record 3.9 per cent in March 1998. So the situation of the economy became even grimmer than before.

5. To address the harsh condition of the economy, the Meeting of Cabinet Ministers in charge of economic affairs on April 24 to quickly formulate and implement a comprehensive economic stimulus package both necessary and sufficient in size to restore foreign and domestic trust in the Japanese economy and its management. Fiscal outlays for central and local government tax cuts and for the improvement of social overhead capital contained in this package total 12 trillion of yen (\$93 billion), and the public-works projects to be carried out account for more than 16 trillion of yen (\$124 billion), the largest appropriation of this kind ever made. It is expected that the package will quickly lift the economy from the present predicament.

Trends in the steel market

6. In 1997, steel demand from manufacturing industries increased 3.8 per cent over the preceding year, but demand related to construction declined 5.4 per cent. As a result, total real demand for steel declined 0.9 per cent. However, because of considerable inventory accumulation, steel demand totalled 82 million tons on an apparent consumption basis. This was an increase of 1.7 per cent over the previous year.

7. Crude steel production in 1997 increased 5.8 per cent over the previous year to 104.54 million tons, exceeding the 100-million-ton mark for the first time in two years. Special steel production totalled 16.52 million tons, a gain of 7.7 per cent.

8. Steel demand, however, sharply declined in recent months as a result of the stagnation of the economy in general and in particular the slowdown of housing investment and of demand from automakers. Crude steel production in the first quarter of 1998 totalled 24.16 million tons, a 6.8 per cent decline from the corresponding period of the preceding year. Steelmakers are intensifying their production cutbacks, expecting a further drop in demand from April. The latest economic stimulus package should begin showing effects in the second half of this year, but crude steel production is certain to decline below 100 million tons in 1998.

Trends in steel trade

9. Exports of steel totalled 22.99 million tons in 1995, a decline of 4 per cent from the year before, and 20.62 million tons in 1996, down 10.3 per cent, but turned upward in 1997 to total 23.50 million tons, a gain of 14.2 per cent. This was the first increase in three years.

10. Looking back on 1997, the market environment for steel exports from Japan was totally different between the first and the second half of the year as a result of the Southeast Asian currency and economic crises that broke out in the summer of the year, and their possible effects were feared. However, the effects of these crises on steel exports from Japan in 1997 were minimal overall.

11. By destination, exports to Thailand decreased slightly compared with the preceding year, but exports to ASEAN countries as a group showed a 13.5 per cent gain. Exports to South Korea rose 5.7 per cent to a record 3.53 million tons. Exports to the United States jumped 31.9 per cent to 2.70 million tons, those to China gained 4.8 per cent to 2.66 million tons, and shipments to Taiwan advanced 8.8 per cent to 2.43 million tons.

12. Special steel exports in 1997 totalled 3.76 million tons, a 5.5 per cent gain over the previous year. Of this tonnage, "other special steel products" (alloy steel, high-carbon steel and tool steel) accounted for 2.58 million tons, up 8.4 per cent. Going into 1998, however, special steel exports began to show a sharp drop as Southeast Asian economic stagnation continued. Moreover, steel prices in the Southeast Asian market have sharply declined as a result of the drastic devaluation of Southeast Asian currencies. Therefore, total steel exports from Japan in 1998 are expected to decline below 20 million tons.

13. Steel imports to Japan totalled 11.72 million tons in 1995, a 29.3 per cent increase over the preceding year, stimulated by strong domestic demand and the yen's appreciation, but they declined 26.4 per cent to 8.63 million tons in 1996. In 1997, however, steel imports rose 10.9 per cent to 9.57 million tons. This, the first increase in two years, came about despite the yen's depreciation, in part because steel consumption in Japan rose in the first half of the year.

14. There were diverse factors behind this increase. Imports in 1996 declined to the lowest level since 1987, and replenishment purchases in the wake of the import plunge surged from the beginning of 1997. There was also a last-minute surge in demand for imported steel ahead of the consumption tax increase in April 1997. Domestic steelmakers cut back production to restore a balance between supply and demand. All these factors contributed to increasing steel imports during the first half of 1997.

15. But in the second half of 1997 final demand declined as a result of the consumption tax increase. Demand for all consumer goods including consumer durables declined sharply, and steel imports decreased slightly.

16. By item, ordinary steel imports increased 10.0 per cent to 5.67 million tons, and ferroalloys gained 8.1 per cent to 1.81 million tons.

17. By supplier, ordinary steel imports from South Korea rose 2.9 per cent to 2.89 million tons, those from Chinese Taipei gained 64.4 per cent to 1.03 million tons, and those from China increased 81.1 per cent to 570 000 tons. On the other hand, imports from Brazil decreased 16.8 per cent and shipments from the United States dropped 93.8 per cent.

18. Steel imports in the first quarter of 1998 totalled 2.14 million tons, a decrease of 14.7 per cent below a year earlier because of weak domestic demand. But, in the same quarter, imports from South Korea rose 24.9 per cent, and imports from Chinese Taipei increased 25.3 per cent. Steel imports from Asian countries remained brisk, because steel produced in those countries gained price competitiveness as a result of the sharp devaluation of their currencies.

Steel trade policy

19. Exports represented about 39 per cent of all steel produced in Japan in 1976, an all-time high. But, in recent years, exports dropped to about 20 million tons, or about 20 per cent. Imports, on the other hand, which accounted for 4.2 per cent of all steel consumed in 1985, were up sharply at 8.2 per cent, or 9.57 million tons, in 1997. The difference between exports and imports of steel is diminishing.

20. There once were bilateral agreements to voluntarily restrict steel exports from Japan, but long before the World Trade Organisation was set up in January 1995, measures to promote or curb steel exports were abolished.

21. Japan now practices a trade policy based on international rules laid down by organisations such as the WTO. Regarding steel trade, in Japan there are measures neither to restrict imports nor to promote exports. There are no bilateral agreements on steel trade and no negotiations over steel trade in progress. The Japanese market for steel is open. As already noted, imports' share of the apparent consumption of ordinary steel in Japan has doubled. Moreover, imports of quality products are tending to increase. All these are evidence that the Japanese steel market is an open one.

22. During the Uruguay Round of multilateral trade negotiations over the market access issue, Japan agreed to lower import tariffs step by step on a reciprocal basis over a 10-year period until they reach 0 per cent in 2004. At the APEC meeting in Osaka in November 1995, Japan lowered the import tariff on 92 steel products ahead of schedule. This was the initial action by the host country. At present, Japan is lowering the import tariff step by step for eventual abolition in the target year of 2004. According to the schedule, the average import tariff on steel will decline to 1.9 per cent in January 1999. To promote liberalisation of steel trade in the world based on the principles of free competition, Japan is hoping that even countries that did not take part in the Uruguay Round will also improve the access to their markets.

23. Japan took antidumping sanctions against China's ferro-silicon manganese in February 1993, but invoked the sunset clause at the end of January 1998 and stopped the application of antidumping duties because the Japan Ferroalloy Association, the applicant for the sanctions, had not requested extension of the period of the antidumping duties and also because no new problems had cropped up. There are no antidumping measures now in effect.

24. Environmental issues are expected to greatly affect steel trade in future. If the steel industry in a country where there are severe environmental requirements fails to develop new technologies or make capital investment for environment conservation, steel production in that country and steel exports from

that country will decline in relative terms. On the other hand, if steel produced in a country where environmental requirements are very slack is exported to a country where there are severe environmental requirements, an opinion demanding the application of a high import tariff or, if there is an environmental tax in the importing country, an opinion that the same environmental tax should be levied will begin to be heard. How to handle such issues will be placed high on the agenda for international meetings. Serious discussions on this matter should be held.