

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

INDIA

**EVALUATION OF NATIONAL, REGIONAL AND GLOBAL DEVELOPMENTS IN STEEL
INDUSTRY FROM THE REGIONAL PERSPECTIVE**

Joint India/OECD/IISI Workshop, New Delhi (India), 16-17 May 2006

Presentation by Dr. Veysel Yayan, Secretary General of the Turkish Iron and Steel Producers' Association.

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JT03208580

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**Evaluation of National, Regional and Global Developments
in Steel Industry from the Regional Perspective**

**OECD Joint Conference on Steel
(India/OECD/IISI)**

Dr. Veysel YAYAN
Secretary General of the Turkish Iron and Steel Producers
Association

**16-17 May 2006
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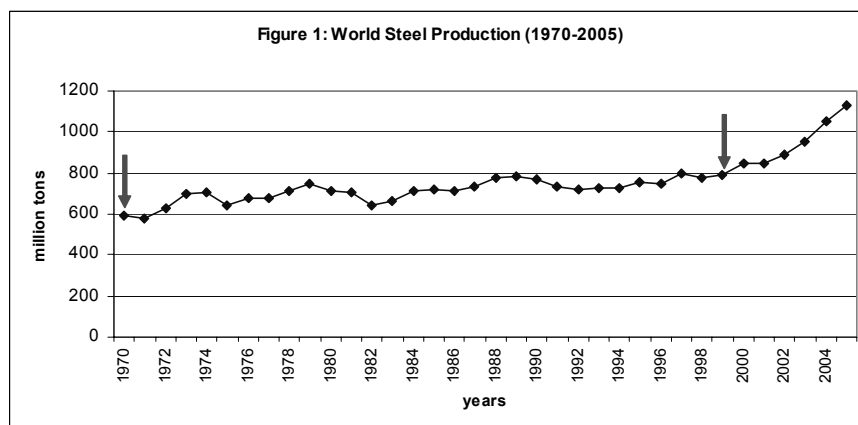
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Global steel industry showed a remarkable production increase of 282 million tons during the five year period between the years 2000-2005. The amount of the global production increase during the last five years, is 50 % more than the increase achieved during the period of 30 years between 1970-2000.

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222 million tons of the global steel production increase of 282 million tons during the last five years belongs to China. China has raised its share in the world steel production to 32.6 % during the first quarter of 2006 and expected to reach around 410 million tons of crude steel production in 2006.

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As a result of extraordinary production rise during the last 5 years, China become 0.5 million tons of net steel exporter in 2005 due to its comparative advantages of lower investment and production costs.

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This allows Chinese producers to renew their production technology and make new investments at lower costs compared to the other regions. The fast change in Chinese export/import and production/consumption balance deeply affected the global steel markets and prices, as well as raw materials markets.

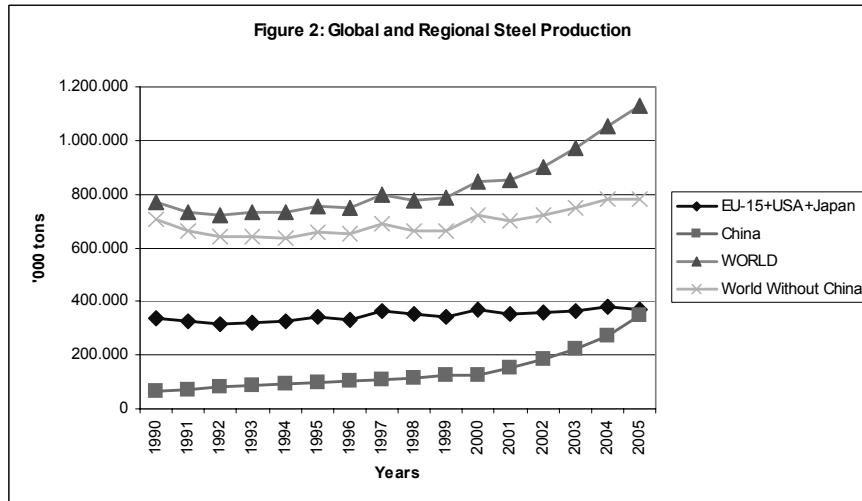
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While production and consumption is showing a fast increasing trend in China, production and consumption of the developed economies such as the USA, Japan and EU has been stable for the last fifteen years since they have completed their infrastructure investments.

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China, produced 66 million tons of crude steel in 1990, about 270 million tons lower than the total production of EU, USA and Japan, removed the gap until 2005. World steel production figures of 2005 show that China's production is just 21 million tons below the total of EU, USA and Japan, and in 2006 China's production will surpass the combined production of those regions.

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In the global steel production, the trend is shifting from the developed western countries to the developing eastern regions. At the same time, although western producers do not increase their production at high levels, they are focusing on higher value added products, decreasing the proportion of lower value added products in their production.

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In addition to the high production and demand in China and some of the other Far East economies, there is high potential in some of the Middle East countries in terms of production and consumption. Similar tendency is also valid for Turkey and some of the Eastern European countries.

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Turkey's crude steel consumption per capita, stayed around 150 kg in 1990's, increased to 200 kg in 2000 and finally reached around 275 kg. in 2005 due to the high growth rates after the year 2002.

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In 2005, because of the high economic growth, Turkish construction industry improved by 20 % and the reflections of the economic growth to domestic long and total steel consumption were by 30 % and 20 % increase respectively.

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We expect that the increasing consumption trend will continue in 2006 as a result of the Mortgage law. 11 % increase in total and 29 % increase in long steel consumption figures regarding the first quarter of this year also confirms our expectations.

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Table 1: Turkey's Finished Steel Production ('000 tons)

	2002	2003	2004	2005	2005 3 months	2006 3 months*	% change.(06/05)
LONG PRO.	10.324	11.895	13.271	15.423	3.557	4.240	19
FLAT PRO.	3.144	3.535	3.616	3.760	915	843	-8
SPECIAL STEEL	299	320	330	343	70	100	43
TOTAL	13.767	15.750	17.217	19.526	4.542	5.183	14

Table 2: Turkey's Finished Steel Consumption ('000 tons)

	2002	2003	2004	2005	2005 3 months	2006 3 months*	% change(06/05)
LONG PRO.	4.930	6.205	6.741	9.004	1.813	2.337	29
FLAT PRO.	5.865	6.848	7.772	8.746	2.084	1.950	-6
SPECIAL STEEL	491	602	773	899	192	257	34
TOTAL	11.286	13.655	15.286	18.649	4.089	4.544	11

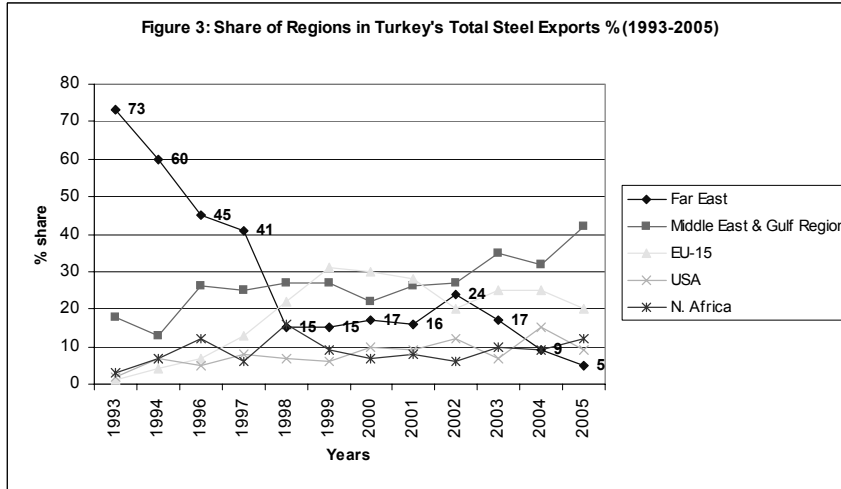
* Temporary Figures

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Far East had been the biggest export destination for Turkish steel products when China was dependent on imported steel. As it can be seen from the graphic, the share of Far East in Turkey's total steel exports declined drastically from 73 % in 1993 to 15 % in 1998 and finally 5 % in 2005.

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On the other hand, Turkey's regional proximity to the Middle East, Gulf countries and North Africa gives Turkish steel producers a comparative advantage of freight in exports to those regions. Turkey is located in an area between the regions of Eastern Europe, Middle East, Gulf Region and North Africa, which have not completed their investments yet.

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Table 3: Turkey's Total Steel Exports and Imports by Regions

Regions	Exports 2004		Exports 2005*		Imports 2004		Imports 2005*	
	ton	1000\$	ton	1000\$	ton	1000 \$	ton	1000 \$
USA	1.890.406	901.884	1.070.447	475.598	7.721	12.022	25.394	23.849
EU (25)	3.122.355	1.449.699	2.229.422	1.095.036	2.064.667	1.627.155	2.419.008	2.103.487
CIS	19.896	16.559	36.520	35.969	4.437.415	2.072.653	4.921.726	2.356.389
F. East & S. Asia	1.051.952	363.256	587.270	263.830	162.443	143.025	185.327	217.411
M. East & Gulf Region	3.899.922	1.557.610	4.589.252	1.859.291	2.302	1.725	789	1.021
N. Africa	1.066.144	428.126	1.305.281	523.350	15.690	6.760	34.506	14.440
Others	1.144.961	533.450	1.184.756	584.946	1.304.200	715.195	1.916.969	1.072.583
TOTAL	12.195.636	5.250.584	11.002.948	4.838.020	7.994.438	4.578.535	9.503.719	5.789.180

* Temporary Figures

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In 2005, despite of the uncertainties in the international markets and decline in steel exports to the US, EU and Far East markets 43 %, 28 % and 44 % respectively and 9.8 % in total, Turkey's production increased by 2.4 % owing to the high demand in the domestic market.

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Although Turkey's steel exports to the EU and imports from the EU are around the same level in terms of quantity, value of the imports from EU is about 2 times higher than the value of Turkish exports to the EU. This is because, Turkey mainly exports semi finished and long products to EU, however it imports higher value added flat rolled and special steel products from the EU.

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Table 4: Total Steel Exports of Turkey

	2002		2003		2004		2005*	
	ton	1000\$	ton	1000\$	ton	1000\$	ton	1000\$
Billet & Bloom	3.053.654	588.554	3.148.190	746.242	3.770.521	1.316.782	2.168.957	773.453
Slab	22	22	38	32	86	57	198	291
Flat Products	1.120.465	340.994	979.489	384.542	1.039.038	638.477	1.108.868	702.384
Long Products	5.762.444	1.241.362	6.141.998	1.673.635	7.183.700	3.123.308	7.526.351	3.148.654
Special Steel	168.062	68.040	180.631	94.531	202.291	171.960	198.574	213.238
TOTAL	10.104.647	2.218.972	10.450.346	2.898.982	12.195.636	5.250.584	11.002.948	4.838.020

Table 5: Total Steel Imports of Turkey

	2002		2003		2004		2005*	
	ton	1000\$	ton	1000\$	ton	1000\$	ton	1000\$
Billet & Bloom	644.169	117.220	779.575	189.993	580.094	222.728	898.067	324.906
Slab	280.174	58.914	832.919	202.729	945.449	406.026	974.654	440.967
Flat Products	3.840.937	1.036.005	4.292.916	1.552.529	5.195.347	2.740.362	6.180.393	3.425.547
Long Products	368.938	131.342	451.250	194.661	627.543	376.961	692.950	470.913
Special Steel	359.294	349.048	462.961	519.943	646.005	832.458	757.655	1.126.847
TOTAL	5.493.512	1.692.529	6.819.621	2.659.855	7.994.438	4.578.535	9.503.719	5.789.180

* Temporary Figures

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Due to the increasing petroleum revenues, the Middle East, North Africa and Gulf countries are expected to boost their investments to the infrastructure that they have not completed and this will support steel consumption in those regions. We believe that Turkey will partly offset its losses in the other export markets by focusing on Middle East, Gulf and North Africa markets.

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Steel mills in the high cost developed countries using emissions trading will increasingly make clean technology steel investments in the lower cost regions. Moreover, after the Kyoto Protocol is accepted globally especially by the USA and China, scrap intake of integrated facilities as raw material is expected to increase as it releases less carbon dioxide than iron ore.

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On the other hand, increasing recyclable raw materials usage in the integrated facilities may put pressure on the scrap supplies and prices in the future. This may have negative affect on Turkish steel industry which is the biggest importer of steel scrap in the world.

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Table 6: Turkey's Scrap Imports

	2002		2003		2004		2005*	
	ton	1000\$	ton	1000\$	ton	1000\$	ton	1000\$
EU (25)	3.307.387	348.049	5.408.572	766.020	3.258.093	733.704	3.464.178	805.020
USA	495.905	53.173	780.287	112.344	572.173	144.555	1.369.829	324.779
Russia	1.799.531	183.688	2.052.196	295.848	3.660.087	851.312	3.968.573	952.064
Ukraine	1.852.104	189.793	1.063.168	147.533	1.322.849	315.661	674.246	161.393
Georgia	760.098	77.171	1.123.608	165.402	760.758	178.648	576.847	134.553
Romania	1.260.639	130.041	1.596.824	236.694	1.508.321	366.240	1.201.349	288.460
Others	377.561	37.371	932.830	131.935	1.810.267	423.628	1.905.668	441.485
TOTAL	9.853.225	1.019.286	12.957.485	1.855.776	12.892.548	3.013.748	13.160.690	3.107.754

* Temporary Figures

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Despite negative developments, it is possible to say that future of the steel industry is promising on condition that artificial capacities are not built via state aids. Steel industry needs to be profitable that will enable them renew their technologies via their own sources without requiring any state aid.

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International meetings held with the leadership of OECD for the last five years on eliminating the worldwide inefficient production capacities and banning the state aids in the steel industry showed that it will not be easy to manage the problems of the global steel industry through international control mechanisms and it should be done basically through the free market conditions and WTO rules.

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Turkey, as a country progressing towards EU membership, banned all kinds of state aid in the steel industry and showing great effort to reach the EU level in terms of environmental requirements.

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We expect the global and especially our regional steel consumption will increase more than 5 % per year for the coming years and this will put an increasing pressure on the raw material costs.

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On the other hand, high increases in the global steel production and raw materials demand during the last few years showed that as long as the price is paid there will not be any shortage of raw materials and it will also increase in line with the demand.

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In order not to sustain inefficient capacities artificially and not waste the limited supplies of the world through steel subsidies, steel price increase to a level which will enable investments required for environmental standards is important. We believe that global consolidation trend began in 2002 will contribute to this process.

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However, when we consider the proportion of China in the global steel production and consumption, we will see that managing this process is closely related to the policies that China will follow in the future.

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In this respect, as Turkish steel producers we see this kind of international meetings as the one of the most important occasions in terms of discussing the issues and expectations related to the global steel industry.