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DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE

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DRAFT ANNUAL REPORT TO THE COUNCIL ON THE ACTIVITIES OF THE STEEL COMMITTEE

The attached draft annual report is for consideration by the Steel Committee at its meeting on 29 May 1998.

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SUMMARY

The attached annual report reviews the activities of the Committee during 1997 and the first several months of 1998. It provides an overview of the Committee's work and objectives and summarises the discussions the Committee had on policy issues. In addition, the report reviews the analytic and statistical work undertaken in support of the Committee's policy discussions, and comments on the Committee's activities with non-Member economies. Reference is made to the Committee's horizontal work with other OECD units, and the Committee's co-operation with other international organisations.

ACTION

The Committee will be asked to consider the draft report and approve a final version at its next meeting, which is scheduled to be held on 29 May 1998.

RELATED DOCUMENTS

C(97)155: Annual report to the Council by the Steel Committee on its Activities in 1996

DSTI/SI/SC(96)3/REV1: Revised Programme of Work for 1997 and 1998 -- Steel

DRAFT ANNUAL REPORT TO THE COUNCIL
ON THE ACTIVITIES OF THE STEEL COMMITTEE

1. The Steel Committee submits the following annual report on its activities to the Council in accordance with Article 4 of the Decision establishing the Committee [C(78)171(Final), as amended]. The report relates primarily to 1997, but also takes developments during the first months of 1998 into account. The activities described encompass three inter-related areas: (1) steel policy issues; (2) analytic and statistical work on steel; and (3) activities with non-Member economies.

Overview

2. Despite the progress that has been made in addressing trade and adjustment issues, the situation in steel remains sensitive, and is likely to remain so in the near term. New capacity in Asia, and North and South America, combined with the emergence of the NIS republics as major steel exporters, is significantly altering world steel production and trade patterns, while pressuring steel producers in all areas to adjust. The situation has become more uncertain in view of the economic crises affecting a number of countries in the Asia-Pacific area. In the field of trade, tensions remain great, as evidenced by the growth in the number of countries taking trade actions to protect their domestic industries or remedy unfair trade practices.

3. Members of the Steel Committee are committed to supporting the substantial gains that have been made in liberalising steel trade through the Uruguay Round, and they support the further opening of markets to increased competition. They are concerned that these gains could be undermined if current and emerging issues are not adequately addressed. As most of these issues have an important multilateral dimension, they reaffirm their support for the Committee, which is the only multilateral forum where trade and related policy issues are being considered. They also confirm the importance of involving key non-Member economies in the Committee's work, where mutually beneficial.

I. Steel policy issues

4. In its policy work, the Committee has striven to promote transparency among countries through a regular discussion of policy objectives and measures in steel. The longer term aim has been to build support for lowering tariff and non-tariff barriers to steel trade, while discouraging governments from providing supports that distort competition.

5. During 1997, the Committee reinforced this work. With the efforts to negotiate a multilateral steel agreement now suspended, the Committee undertook a new initiative, which will document and examine a broad range of government measures that are being taken in steel. The information, which is currently being collected, will serve as a basis for a more profound examination of key issues (such as tariff and non-tariff barriers, subsidies, safeguards, grey area measures, and the like). At the same time, the Committee is examining the structural changes occurring in trade more closely, with a view towards

increasing understanding of the significant shifts that are occurring in trade and production patterns world-wide.

The NIS economies

6. One of the key issues that the Committee addressed in 1997, concerned developments in steel in the NIS economies. The situation was discussed at length with Russian and Ukrainian officials at the Committee's June meeting, and followed up at the Committee's November meeting. According to the discussion, the steel industries in the two NIS countries were facing a serious situation. With the collapse in domestic demand, producers had turned to exports to sustain operations. During the year, these exports were accounting for 50 to 70 per cent of production. The foreign sales were also an important source of revenue for the industry as internal payment problems had resulted in a high level of accounts receivable, and a sharp rise in barter trade.

7. In earlier years a substantial proportion of the foreign steel trade of the two countries had been directed to the non-OECD Asia-Pacific area, which was a major net importer of steel products. With capacity in the Asia-Pacific area rising and growth in demand easing, interest had shifted more to the OECD and other areas. This had resulted in a sharp rise in low-priced imports into these areas. Countries had responded to the situation in different ways.

8. In the European Union, bilateral accords reached with Russia and Ukraine on steel were renewed through 2001. These agreements provided for a progressive liberalisation of trade in a number of flat-rolled and long products. In addition, the European Communities would provide a substantial amount of technical assistance to facilitate the transition of the two NIS countries to market economies. The agreements would be reviewed prior to either country acceding to the World Trade Organisation, and they would also be subject to review if the countries established competitive conditions compatible to those prevailing in the European Union. In addition to these measures, imports of two products from Russia -- seamless pipes and tubes and grain-oriented electrical sheet -- were subject to antidumping duties and, in the case of the sheet, an undertaking. Moreover, imports of narrow strip and certain electrical sheets from the two countries were subject to a double licensing system. The European Communities and the two NIS countries had agreed to the licensing system in order to improve the accuracy of country-of-origin information -- there were no quantitative or other restrictions implied.

9. In North America, the United States had entered into suspension agreements with Russia and Ukraine under which imports of steel plate would be subject to quantitative limits and minimum prices during the period 24 October 1997 to 23 October 2002. The import measures were taken in lieu of formal antidumping actions, following affirmative injury findings and affirmative findings of sales at less than fair value. Canada had imposed antidumping duties on plate from the two countries, while Mexico had taken, or was considering, action on plate and hot-rolled coils. In the case of Canada, Russian industry and Government officials had met with their Canadian counterparts to discuss actions that might be taken to avoid antidumping cases in other steel products in the future; nothing had, however, been decided.

10. In Turkey, antidumping duties were in place on imports of steel billets from Russia and Ukraine while in Korea, the Government was conducting an antidumping investigation on imports of certain structural shapes from Russia. Outside the OECD area, measures had been taken, or were under consideration on NIS steel imports in Chile, Chinese Taipei, India, Indonesia and Thailand.

11. In discussing the situation, the Committee agreed on the importance of maintaining markets that would be open to fairly traded NIS steel. In certain instances, this might require the negotiation of

transition or suspension agreements; the European Communities and the United States had already pursued this approach in certain product areas.

12. The Committee and the NIS officials agreed that the discussions that were held had been beneficial, and that further dialogue, on a regular basis, should be pursued. In this context, continued observership of both countries was essential. For their part, the NIS officials expressed their hope that accommodation could be made for Russian translation at future meetings.

The Asia-Pacific area

13. At its November meeting, the Committee expressed growing interest in the situation in the Asia-Pacific area in light of the economic crises that had developed in a number of countries in the region. Non-OECD countries in the area have been an important market for OECD steel exports thus far in the 1990s. This would continue to be the case, but the situation was changing. While some projects had been delayed, steelmaking capacity would be growing significantly in a number of countries in the area during the next several years. As the economies would not be expanding as quickly as in the past, there would be a reduced need to import steel. An expected contraction in public spending on infrastructure would dampen steel demand further. With their domestic markets weakened, and with favourable exchange rates and rising capacity, steel exports from the countries would rise. There was already evidence of this occurring. The more significant effect, however, would be on exports to the area from OECD and other countries. With the European and North American steel markets strong, the effects would probably not, however, become apparent in the near term. The Committee decided that it would continue to focus attention on this area and examine the short and long term implications of the situation for world steel trade and production.

Policy developments in other countries

14. A substantial part of each Committee meeting was devoted to an exchange of views and information on policy developments in countries participating in the Committee. In addition to Russia and Ukraine, Brazil, Canada, the Czech Republic, the European Communities, Korea, Poland, Romania, the Slovak Republic and the United States discussed developments their areas during 1997. Moreover, Hungary, Japan, Mexico, Norway, Switzerland, Turkey joined these countries in discussing key industry and market developments. Issues discussed included the status of industry restructuring, privatisation and trade (problems, actions, remedies and policies).

Other issues

15. The Committee considered issues related to steel and the environment, ferrous scrap, and country of origin rules during 1997. In the field of environment, close attention was paid to developments in the Framework Convention on Climate Change. In addition, work was undertaken to develop a framework for assessing the effects of environmental regulation on the industry, on a cross-country basis. On the matter of ferrous scrap, which is the principal raw material used to produce steel in electric furnaces, the Committee discussed supply and demand trends, and the efforts that were being made to liberalise scrap trade. A number of countries had established restrictions in support of their steel industries. Attention was also paid to the treatment of ferrous scrap in the OECD guidelines on the transfrontier movement of hazardous waste, and the Basel Convention. The Committee has been concerned that benign scrap trade would be severely disrupted if it were subject to restraints. Finally, the Committee closely followed the work that the WTO and the World Customs Organisation have been conducting on rules of origin. These

rules have important implications for steel trade as they will determine the applicability of trade remedies (such as antidumping and countervailing duties) on imports that have been processed in two or more foreign countries. Such processing appears to be a growing tendency in the industry.

II. Analytic and statistical work on steel

16. Analytic and statistical work was carried out in support of the full range of the Steel Committee's activities during 1997. The work included the collection and distribution of basic statistical information on a quarterly basis through the Committee's continuous information system and the publication of the annual statistical report on the steel industries of countries participating in the Committee (*The iron and steel industry in 1996*).

17. Other work included reports on conditions in participating countries' steel markets that were released to the public as press communiqués and reports that were prepared in early 1997 and 1998 on the market outlook for the respective years. A February 1998 press report [SG/COM/NEWS(98)17] indicates that steel consumption in the OECD for 1998 area should remain unchanged from the 1997 level. Strong growth in Europe and continued strength in North America were expected to balance a weakening of demand in the Asia-Pacific area. For the OECD area as a whole, the volume of steel traded was expected to decline, by 8 per cent in the case of imports and by 5 per cent in the case of exports.

18. In addition to the press communiqués, a more comprehensive report on world developments in 1996 and the outlook for 1997 and 1998 was published in mid-1997 (*The Steel Market in 1996 and the Outlook for 1997 and 1998*).

III. Activities with non-Member economies

19. The Committee places high priority on its activities with non-Member economies in view of their increasing importance in world steel. China, for example, is now the world's largest steel producer and a major steel trader, while Russia is currently the world's largest steel exporter. Closer co-operation with these and other emerging players is seen as enhancing the effectiveness of the Committee in addressing current and emerging issues, most of which have an important multilateral dimension.

20. The Committee maintained close relations with Brazil, the Russian Federation, Romania, the Slovak Republic and Ukraine during 1997. Brazil is joining the Committee (an exchange of letters has occurred) while the latter four countries all have observer status. Co-operation has also advanced with other key non-Member economies, such as China, India and Chinese Taipei. In March, for example, India formally requested observership in the Committee. In the case of China, officials have continued to express interest in regular participation in Steel Committee activities, and have proposed the organisation of a workshop in China to address adjustment issues. Co-operation was further advanced in May 1998 through an EMEF *Workshop on Steel Trade Issues*, to which a broad range of major and emerging steel-producing countries were invited.

IV. Horizontal and international co-operation

21. The Steel Unit maintained close contact with the Environment and Trade Directorates in interrelated work on export credits, waste and global warming issues. The Trade Directorate was also involved in the planning of the EMEF *Workshop on Steel Trade Issues*. On an international level, the Unit

participated in the work of the United Nations Working Group on Steel, while maintaining relations with the International Iron and Steel Institute and the International Metalworkers Federation. Additionally, the Secretariat accepted an invitation to participate as a principal speaker at an annual conference on steel in Latin America, sponsored by the industry's trade association, ILAFA (Instituto Latinamericano del Fierro y el Acero).

V. Meetings

22. The Committee met twice in 1997, in June and November. Representatives from the TUAC participated in both of these meetings; the topics discussed included issues related to current market and industry conditions, developments in steel trade policy, and issues related to structural adjustment in the industry.