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#### STEEL COMMITTEE

#### THE STEEL INDUSTRY IN TRANSITION: POLICY ISSUES AND SCOPE FOR MULTILATERAL CO-OPERATION

1. The OECD Centre for Co-operation with European Economies in Transition and the OECD Steel Committee conducted a seminar with six European economies in transition on 26th and 27th October -- Bulgaria, the Czech and Slovak Federal Republic, Hungary, Poland, Romania and the Russian Federation. The purpose of the seminar was to initiate an exchange of information on industry and policy developments, and to discuss issues related to steel industry adjustment. In addition to government officials, industry and labour representatives from OECD and the non-Member countries participated.

2. Seminar participants agreed on the value and need for an ongoing dialogue, and will be discussing the forms that co-operation might take in the future.

#### THE STEEL MARKET SITUATION IN OECD COUNTRIES

1. The general economic situation did not improve in 1992 and remained as weak as foreseen by the Steel Committee at its last meeting. For the OECD area as a whole the growth rate of GDP will probably be close to 1.5 per cent for the year as compared to a forecast of 2.2 per cent in December 1991. Stagnation of investments and private consumption together with monetary instability affected most of the main steel consuming sectors. A decline by some 2.5 per cent of steel demand is expected for the OECD area in 1992. During the first 9 months of 1992 crude steel production for the area as a whole declined by 1.4 per cent, i.e. 3.8 Mt. Low prices for steel products and lower production generally resulted in continuing losses for the steel industry, due to weak demand and world overcapacity together with emerging problems in international trade in steel and a general lack of investments particularly in infrastructure.

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2. Concerning the main steel market developments in individual countries, in the USA, 1992 has been a difficult year for the steel industry which continued to record operating losses, albeit not as great as in 1991. Steel shipments during the first eight months of 1992 were up 6 per cent from the same period of 1991. Crude steelmaking capacity utilisation rate at early October averaged 81.3 per cent, compared to 72.4 per cent during the same period of last year. Despite the increase in crude steel production and shipments, steel prices have remained soft precluding the industry from benefitting from the increase in operating rates and returning to profitability in 1992 and no significant improvements are expected for 1993. In the first seven months of 1992 compared to the same period of 1991, shipments to the automotive sector were up 23.7 per cent; up 6.8 per cent in the construction and contractors' product market; up 21.9 per cent in the service centers and distributors market, and up 2.5 per cent in the machinery (excluding agricultural) market. However certain steel-intensive consuming sectors -- as for example housing and durable goods -- continue to be affected by the recession. On the other hand, production of cars and trucks in the fourth quarter of 1992 is expected to increase by 7.7 per cent. For the first seven months of 1992, imports increased by 2.1 per cent in tonnage terms, however their share in the market declined to 17.8 per cent from 19.1 per cent for the same period of 1991. During the first seven months of 1992 U.S. steel exports declined by 33.7 per cent.

3. In Canada, during the first seven months of 1992, crude steel production was 7.931 Mt, an increase by 7.8 per cent from the same period of 1991. In spite of increased production, prices remain low, profits are non-existent and Canadian producers have already announced significant lay offs. Over that period, total steel shipments increased by 9.5 per cent and apparent domestic consumption increased by 6.1 per cent reaching 5.43 Mt compared to 5.12 Mt for the same period of 1991. Imports accounted for 23.5 per cent of the domestic market compared to 28.0 per cent for the first seven months of 1991. Total net imports totalled 1.27 Mt. For the first half of 1992, steel exports were 2.443 Mt compared to 2.253 Mt in the first half of 1991. For 1992, crude steel production is estimated to reach 13.6 Mt, total shipments 11.8 Mt and apparent consumption 9.9 Mt. The growth in apparent consumption is mainly due to increases in merchandise exports and housing starts. However, consumer confidence remains low and retail and auto sales remain in the doldrum.

4. The economic situation in the European Community is going through a slack period, the forecasts for 1992 are less encouraging than expected and predicted growth for the entire year has been revised by the EC downward to 1.5 per cent. Crude steel production in the EC for the first nine months of 1992 is down 0.5 per cent compared to the same period in 1991, nevertheless the forecast of 135.75 Mt for steel production over the year would be reached if current trends are maintained. The hope that the period of stagnation in the EC is coming to an end before 1993 has faded in recent months. Mechanical engineering seemed to be making slight progress in nearly all countries, but the construction industry has plunged deeper into recession. As far as the automotive industry is concerned, the positive trends in the first four months were offset in the succeeding months. The fall in steel prices in the EC had been temporarily halted in the beginning of 1992 indicating a more consistent

approach to sales and greater firmness on the part of companies, despite strong competition. However, the pick-up in prices was stopped during the second quarter and in view of the weakness of the dollar and the gap in prices between the EC and the world market, increased competition and continuing oversupply, the trend should not reverse in the short run. In 1991 total imports of steel products into the EC fell by about 8 per cent compared to 1990. Nevertheless, over the first six months of 1992 imports increased by 8 per cent with imports from Eastern Europe increasing by 56 per cent. During the first five months of 1992 steel exports still increased slightly, except those to EFTA which continued to decline. For the next few months there will probably be greater pressure from imports into the Community market and a poor outlook for exports to third countries. ...

5. In Japan, crude steel production in the first half of 1992 showed accelerated decrease due to the decline in demand resulting from the recession from the second half of 1991 and the excessive stock of finished steel products. Crude steel production for 1992 as a whole is expected to decline to about 97 or 98 Mt, below the 100 Mt level for the first time in 5 years. Due to levelling off of personal consumption and worsening of private capital investment, steel demand in the first half of 1992 decreased in all sectors except the shipbuilding industry. A further decrease is expected for the second half of the year. Steel exports in the first half of 1992 slightly increased by 1 per cent compared to the same period of 1991 and were 8.92 Mt. Exports to Taiwan and China increased while those to the USA and South Korea dropped. Steel imports during the first half of 1992 decreased by 38.7 per cent to 4.3 Mt, reflecting the drop in domestic demand, imports from the NIS and Brazil being the most affected.

6. In Australia, a moderate and patchy economic recovery started during 1991-92. The recovery should continue over 1992-93 but will be moderate, reflecting a subdued world economic outlook. The pick-up was underpinned by domestic factors with private consumption strengthening and contribution to growth from the stock cycle, public final demand and a recovery in housing. The domestic steel market has fallen 31 per cent since 1989 and 8 per cent in the last year. The recovery in steel demand beyond 1992 should be increased by government spending on infrastructures. The extent of recovery in steel demand depends on the performance of business investment which is expected to slowly improve in 1992-93. Australia's only integrated producer has continued to make profits through the recession as a result of cost reduction exercises and modernisation over the last decade. Crude steel production is 6.7 Mt and may increase by some 9 per cent in 1993; with imports remaining stable at 1 Mt and exports close to 2.7 Mt; apparent steel consumption which will be about 5 Mt in 1992 is expected to increase by 10 per cent in 1993.

7. Performance in 1992 and the outlook for 1993 are mixed amongst other Member countries of the OECD Steel Committee. In Austria, with some delay the economy follows the worldwide economic downturn. Crude steel production declined by 4.4 per cent during the first eight months of 1992 and was 2.768 Mt. Domestic steel demand is weakening because of lower exports of metalproduct fabricating industry and a weak overall demand. Steel imports and exports declined respectively by 4.5 and 4.1 per cent during the first seven

months of 1992 compared with the same period of 1991. In Norway, GNP is foreseen by the authorities to increase by 2 per cent in 1992 as a whole. Industrial production which declined by 1.5 per cent in 1991 is expected to increase by 0.6 per cent in 1992. Crude steel production, which increased by 16 per cent in 1991 due to higher efficiency in the steel industry, declined by 2 per cent during the first half of 1992, compared to the same period of 1991. Apparent steel consumption decreased by 7 per cent in 1991, however real consumption is expected to increase by 10 per cent in 1992 as a result of increased investments and activity in the offshore sector. Demand from the shipbuilding industry has increased slightly while the situation in the construction market remains depressed. During the first half of 1992 steel imports increased by 13.3 per cent while steel exports remained at the same level as last year.

8. The Finnish economy is gradually recovering from the severe recession of 1991. Industrial production is expected to grow by 3 to 4 per cent in 1992. Crude steel production during the first nine months of 1992 increased by 7.2 per cent compared to the same period in 1991. Steel demand which fell by 28 per cent in 1991 is expected to stabilise this year but certain sectors such as construction are still depressed. Due to heavy destocking real consumption declined less. Due to the sharp fall in demand, steel imports also fell, however their share in the domestic market increased from 40 per cent in 1990 to 42 per cent in 1991. In Sweden, the decline of the economy has become deep and seems to be prolonged. The important fall in private consumption together with the continuing decline in investment activity will result in a decrease in GNP. As a consequence of the heavy decline in engineering industry and in construction investment steel demand has fallen by more than 20 per cent in 1991. In the first quarter of 1992 apparent steel consumption continued to decline at the same rapid pace, however an increase was registered in the second quarter, probably due to a change in the stock cycle. For the full year of 1992 steel consumption is expected to show a fall by 5 per cent. For 1993, an increase in engineering output and in stocks are expected to keep up steel demand despite very low construction investments. Imports of steel fell rather heavily during the first quarter of 1992 but have thereafter recovered and for the first seven months of this year they declined by 3 per cent. During the same period, steel exports have increased by 7 per cent. Crude steel production increased by 3 per cent in the first three quarters of 1992 compared with the same period of 1991.

9. In Switzerland, over the first eight months of 1992 crude steel production increased by 12 per cent compared to the same period of 1991 to 0.804 Mt and capacities are fully utilised. Despite these good results, price tensions are such that companies hardly can make profits. Apparent steel consumption declined by 5 per cent over the same period and imports declined by 8.5 per cent while exports increased by some 7 per cent. The outlook for the end of 1992 and early 1993 remains weak as no improvement for the machinery, engineering and construction sectors is foreseen. In Turkey, crude steelmaking capacity reached 11.1 Mt in 1992. Crude steel production over the first eight months of 1992 was 6.5 Mt, a 1.1 per cent increase compared to the same period of 1991, and is expected to reach 9.5 Mt for the year as a whole. Imports of steel products during the first half of 1992 increased by 9 per cent and totalled 1.24 Mt, while exports declined by 2 per cent to 2.38 Mt.

10. In Mexico, during the first half of 1992 the economy remained strong, supported by the increasing role of the private investors. Apparent steel consumption has continued to grow moderately during the first half of the year, reaching 5 Mt. At the same time crude steel production has remained close to its 1991 level reaching 4.1 Mt, however an improvement is expected for the rest of the year and the total production for 1992 is expected to be 8.7 Mt. The capacity utilisation rate remains high and is expected to reach 88 per cent by the end of the year. The continuity of economic growth and the stagnation of domestic production led to important reductions in exports and to a further increase in imports. During the first half of 1992 compared to the same period of 1991 steel exports declined by 70 per cent to 140 thousand tonnes while imports grew by 12.5 per cent to 810 thousand tonnes.

11. Restructuring and reorganisations in the steel industry in the OECD area have accelerated the downward trend in employment in 1992, highlighting the impact of the recession on the industry. In the USA the decline was 3.8 per cent representing some 10 000 people, in Canada a reduction by some 2 900 people (8 per cent) is announced for early 1993 and will be followed by another 2 000 during the year. In the EC, employment has been further reduced by 5.5 per cent in 1992. In Australia the target is to reduce the number of employees to 26,000 by May 1993 through voluntary retirement incentives, a reduction by 50 per cent over the last ten years. In Switzerland while the number of employees in the steel industry increased slightly by 2 per cent, the number of production workers declined by 2 per cent. In Mexico the new owners of the companies recently privatised continued the modernisation programme implemented by the government and additional adjustments in the workforce led to an estimated reduction of 5,800 workers (12.8 per cent) during the first half of 1992.