



Way ahead for the global steel industry

18 April 2016

Cecilia Malmström, *Commissioner for Trade*

OECD High-Level Symposium on Steel, Brussels

Ladies and Gentlemen,

Thank you to the Belgian Government and the OECD Secretariat for organising this event.

I cannot overstate the importance of the challenges we are trying to overcome today.

In the EU, the steel industry accounts for 1.3% of our GDP and directly employs about 330,000 highly skilled people. The sector has also made considerable efforts to modernise. Today it has energy efficient plants making high-tech products. It's a strong sector, with strong potential.

However, today's global overcapacity is hitting the sector very hard. The price of steel in Europe has dropped by 40% in recent years. This is thanks to a massive surge in imports – a 25% increase last year alone - possible because the EU's market is open.

The situation, however, is putting hundreds of thousands of jobs in the EU at risk. It's also undermining a strategic sector with importance for the wider economy.

And this, of course, is just Europe. Steel companies and their workers in many countries are facing similar challenges and fears.

We have to solve this problem together. We can't do it individually.

So what kind of solution do we need?

Well, we need to start by looking at the nature of the problem.

Now, to some extent this is a cyclical issue. The slowdown in China has reduced global demand. We know that the capital-intensive nature of the steel industry means times like this are often difficult.

But this time, as they say, is different.

It's different because this time it's not just market forces at work. In fact, the problem is that market forces have been too absent as the global steel industry expanded massively in recent decades.

State involvement, not market needs, particularly in China, has created incentives to invest more, and therefore overproduce. Most of the expansion has happened in China, making it now the world's largest steel producer. China produces more than half the world's steel, more than

twice the combined production of Japan, India, US and Russia together. China's steel companies have over recent years produced around 350 to 400 million metric tons of steel that the global market cannot absorb. To give you a sense of perspective, that mountain of unwanted steel is more than double what we can produce in the EU in a year - and we are the world's second largest producer!

The EU values our close relationship with China and the many ways we both benefit from it. We also recognise that China has announced reforms to the sector, which we consider a promising step if implemented in a reasonable period of time. But the reforms announced are probably not alone enough. And, in the meantime, the situation in China's steel sector is having serious, detrimental impacts on people and communities here in Europe and elsewhere.

That is the problem, what's the solution?

Well, the scale of the emergency in the sector means it's now life or death for many companies. So each of us has first of all had to act quickly, particularly in response to unfair trading practices.

The European Union knows that trade defence measures are not, on their own, going to solve the problem. But EU firms are faced with a massive import surge. And much of it is being sold under conditions which can only be classified as dumping. So we are acting against unfair trade practices in response to justified complaints. And we are acting responsibly, taking into account the needs of consumers and companies that use steel.

But we also know that this is only a short-term bandage. Healing the sector's wounds requires sustained international cooperation leading to effective reform. That's what the EU has been aiming for and what we want to focus on today.

Our first task together is to define a collective goal. I hope we all agree on that.

We need a competitive and sustainable global steel industry...

... An industry that provides us all with a secure supply of this vital input...

... An industry that can support jobs for our people...

... An industry that can keep pace with technological change and meet commitments to reduce carbon emissions.

How do we get there? We must restore fair trade and establish the right role for the state.

Governments certainly have a role to play:

- Supporting research and innovation.
- Setting the legal framework for emissions reductions.
- Helping workers adapt and update their skills when factories close.
- And, as I've said, sometimes also using trade defence instruments.

Other kinds of intervention have to change however, in five ways:

First, governments should not grant subsidies that keep economically unviable plants or companies running. Neither should they support investments in new facilities that would not happen without their intervention.

Second, governments must meet their World Trade Organisation obligations on subsidies, especially the obligation to notify all subsidies to fellow WTO members. We need to trust each other. We therefore need to be open about our policies.

Third, to be fully open, in fact, governments need to go further. In this OECD framework we should agree to share key information for the viability of the steel industry, like any new expansion of capacity; subsidies; and relevant industrial policies.

Fourth, governments should limit the market-distorting effects of state-owned enterprises. Financing must only be provided to these companies at market rates. And the commercial and competitive behaviour of state controlled firms must be subject to the same rules as for the fully private sector.

Finally, governments must promote a market driven restructuring of their respective steel industries. We have already restructured the EU industry considerably over recent decades. And since the EU has the strictest state aid rules in the world, the restructuring is market-driven and carried out by companies. We urge others to take this path as well.

Ladies and gentlemen,

Implementing these ideas, and solving this crisis will be a tall order. But I am encouraged that so many of you are here today. And I look forward to our cooperation to put this vital sector on track and restore fair trade.