



**Global Forum  
on Steel Excess Capacity**

## **2020 GFSEC Ministerial Report**

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## Overview of key messages

### Urgent need to further address steel excess capacity in view of Covid-19 and the deterioration in global steel market conditions

**Even before the outbreak of the Covid-19 pandemic, steel markets were facing significant economic challenges, and structural excess capacity remained high.** World steel markets were already slowing appreciably and although some progress had been made in reducing global excess capacity between 2016 and 2019, overcapacity remained structurally high and global steelmaking capacity started to increase again in 2019. As a result, steel prices had already been in decline since 2018, dampening the profitability of many companies. Just a few months before Covid-19 became a pandemic, the outlook for steel demand showed a sharp slowdown, with 2020 growth projected at the time to fall to 1.7%, and long-term steel demand growth slowing further to around 1% per annum on average.

**The Covid-19 economic crisis is leading to a sharp drop in steel demand.** Unlike previous downturns, it is both a demand and a supply shock, affecting the confidence of all consumers and most businesses, and has a wider geographic scope. While it first severely impacted a variety of services that are less steel intensive, industrial and construction activities that consume large amounts of steel were also hit very hard at the height of the pandemic, particularly highly steel-intensive activity in the automotive and machinery sectors, which together account for more than a fourth of global steel demand. Weakness in the oil and gas sector is also working to depress steel demand. The latest Short Range Outlook from the World Steel Association indicates that global steel demand will decrease by 2.4% in 2020 with most regions registering double-digit percentage declines, with only a partial recovery in 2021. However, the economic outlook is highly dependent on the future course of the pandemic and the extent of fiscal stimulus measures, steel demand projections currently face significant uncertainty and are subject to downside risks.

**In the context of depressed steel demand, significant concerns have been raised regarding steelmaking capacity and related policy developments in non-participating jurisdictions including China, which are still grappling with structural excess capacity.** While steel production in all GFSEC members has adjusted downwards since the onset of the Covid-19 pandemic, in response to the weaker market conditions, Chinese production continues to increase, pushing steel inventories to historic highs. In China, virtually the only economy to experience growth in steel production this year while output levels plummet in the rest of the world, there are indications that steelmaking capacity is significantly higher than previously reported, and the capacity decline in recent years has been more subdued than previously stated. In fact, the direction of change seems to have recently reversed towards capacity growth in China, according to recent OECD data and some market observers. A sudden unwinding of China's high inventories could lead to serious disruptions on international steel markets and exert additional pressure on the survival of steel mills around the world that are already suffering from the crisis. Recently increased VAT rebates in China on exports may be being used as a tool to deal with these unprecedented inventory levels. Moreover, in recent years, attention is focussing increasingly on Chinese cross-border investments towards other markets, which is leading to concerns about a growing overcapacity situation notably in Southeast Asia. In this context, GFSEC members have highlighted Chinese state support for overseas investments by steelmaking enterprises. The country's

significant structural excess capacity, supported by a range of government subsidies and other support measures that members have found to be market-distorting and contributing to excess capacity, is leading to significant global risks particularly in view of the current steel demand downturn.

**Growing risks for excess capacity in the steel sector.** The immediate implication of the current deep recession in the global steel sector is that the capacity-demand gap, an indicator of over-supply risks for the steel market – which in the past has typically led to trade disturbances, triggered sharply lower steel prices and hurt the economic sustainability of the industry – is going to increase significantly this year, to a level of at least 606 million metric tonnes, and is likely to remain high for the foreseeable future. While demand will eventually begin to recover, it cannot be relied on alone to solve the problem. Establishing and maintaining optimal production capacity based on a realistic steel demand outlook and market forces is of the utmost importance. Besides, curbing the root causes of excess capacity—market-distorting subsidies and other government support measures that contribute to excess capacity—will remain the priority well beyond the Covid-19 pandemic.

**Caution should be paid to Covid-19-related government support measures.** While governments around the world need to support their economies and the livelihood of their citizens during the current crisis in many ways, particular caution should be paid when providing subsidies and support to firms in excess capacity sectors such as steel. Such measures should be time restricted and in accordance with the relevant GFSEC principles and recommendations laid out in the Berlin Ministerial report. In view of rising excess capacity in the wake of the Covid-19 crisis, it will be more important than ever to refrain from providing support measures that encourage companies, directly or indirectly, to expand capacity or production, or that would act to hinder the exit of inefficient companies from the market in the long term. Apart from support measures, the Covid-19 crisis has the potential to cause protectionist tendencies in the steel sector. Keeping markets open and avoiding market-distorting measures during the crisis can help solve excess capacity problems by providing the right incentives to steel companies to use resources effectively, and to adjust output and capacity in ways that are aligned with true market forces and realistic expectations of future market developments.

**Need for further transparency and multilateral co-operation.** Participation in the GFSEC process in a spirit of constructive exchange and cooperation is crucial for bringing more transparency to steelmaking capacity developments as well as policy developments affecting the steel industry. This co-operation allows for open and objective assessments of the situation to help countries work together on swift and tangible actions to address excess capacity and improve the situation in their steel industries. Putting the guiding principles and recommendations approved in 2017 in Berlin by 33 GFSEC members into action would ensure more stable conditions for the steel industry during the difficult Covid-19 crisis, and for the sustainable development of the steel sector over the much longer term. Such an outcome can only be achieved, however, if the governments of all major steel-producing jurisdictions abide by the tenets established by the GFSEC. GFSEC members thus renew their call and encourage all G20 members to resume participation in the work of the Forum.

## I. Introduction

1. The Global Forum on Steel Excess Capacity is a unique venue to take multilateral and collective action to address the problem of global excess capacity and tackle the government policies and measures that contribute to it. In 2015, one year before the establishment of the GFSEC, global steelmaking capacity exceeded demand for steel by 800 million tonnes. While the gap declined from 2016 to 2019, the gap remained structurally very high and is set to increase significantly in 2020. This shows that more remains to be done on the supply side. While it is necessary to continue to remove excess capacities that are no longer viable, it is also important to ensure that any capacity expansions are driven by market forces and are in line with true prospects for steel demand in the long term. In addition, as the GFSEC work moves forward, the longer-term and structural risks of slower steel demand are important to consider, as are the near-term consequences of the coronavirus (Covid-19) pandemic.
2. The Covid-19 pandemic that emerged in early 2020 has led the world economy into its worst downturn in decades. Economic sectors have come to a standstill, labour markets have deteriorated sharply, supply chains have been disrupted and financial markets have come under stress. The crisis is also leading to the steepest decline in steel demand since the global financial crisis of 2008-09 and could potentially last longer than what was experienced during that downturn. While global steel markets were already entering a period of slowdown before the emergence of Covid-19, the pandemic has accelerated the speed, scale and geographic breadth of the downturn. The lockdowns implemented in China in January and other countries as of February, as well as the restrictive measures on the movement of people and goods that were necessary to limit the spread of Covid-19, led to a collapse in demand for goods made out of steel, such as cars, household appliances and many other durable goods. They also led to a virtual halt in manufacturing and construction activity around the world, slashing the demand for steel, given the highly steel-intensive nature of these sectors' production activities. The risks of growing excess capacity in the wake of the Covid-19 crisis have risen sharply, making the work of the GFSEC more important than ever to help bring transparency and stability to steel markets during these unprecedented times.
3. The GFSEC brings a unique set of tools to the challenge of addressing excess capacity in the global steel sector. The GFSEC's 31 members, which account for approximately 77% percent of global steelmaking capacity outside of China, share up-to-date information with one another on changes in their respective steelmaking capacity; on the number, nature, and identity of steelmaking enterprises operating in their jurisdictions; and on government support measures provided to steelmaking enterprises. GFSEC members discuss and assess these developments against agreed principles designed to ensure market functioning in the steel sector. The process is enhanced through regular engagement with steel industry stakeholders, who are invited to inform and participate in the GFSEC's work. The transparency, vigilance, and opportunity for mutual learning afforded by this process provides an important instrument in the common cause of seeking to achieve balance and market functioning in international steel markets.
4. Building on the progress the Forum has made over the past three years, the European Union and the Republic of Korea, serving as GFSEC co-Chairs in 2020, have continued the work of the GFSEC together with members to fulfil the mandate given by ministers at the GFSEC Ministerial meeting in Tokyo in October 2019. Fully in line with the G20 Leaders' declarations of Hangzhou, Hamburg, Buenos Aires and Osaka, Ministers representing 31 economies agreed in Tokyo in October 2019 to continue the GFSEC's work on the issue of steel excess capacity on the basis of the principles and methods of work developed by the Forum, as described in the Berlin and Paris Ministerial Reports of 2017 and 2018, respectively, as well as the Tokyo Chairs' Report.
5. This report presents the work and progress of the GFSEC in 2020, beginning with an overview of the steel market situation before the Covid-19 pandemic as well as the impacts and future prospects for the industry as a consequence of the pandemic. This is followed by insights drawn from the new

rounds of information sharing and from the discussions with industry representatives, including as regards Covid-19-related developments occurring in the early months of 2020. The next section summarizes discussions among GFSEC members regarding developments in non-GFSEC member jurisdictions. The last section of the report includes GFSEC recommendations, commitments and next steps.

### ***Steps leading up to the establishment of the GFSEC and its substantive achievements***

6. Recognising the serious problem of excess capacity in the global steel industry, G20 Leaders called for the formation of a Global Forum on steel excess capacity at their Summit on 4 and 5 September 2016, in Hangzhou. The Global Forum on Steel Excess Capacity (GFSEC) was formally established on 16 December 2016 in Berlin bringing together 33 member economies (all G20 members and interested OECD members), representing – at the time - around 90% of global steel production and capacity. Establishment of the GFSEC was an important multilateral endeavour bringing together a broad number of economies with a common objective to resolve challenges in a sector for which they have a shared interest.
7. In line with G20 Leaders' call for increased information sharing, the Global Forum established an information sharing mechanism in early 2017, to exchange information on crude steel capacity developments, as well as government policies and measures affecting capacity developments including market-distorting subsidies and other support measures. The impact of this work has led to greater transparency with respect to capacity developments and with respect to those policies that can have an impact on excess capacity.
8. At their summit in Hamburg in 2017, G20 Leaders called on GFSEC members to develop concrete policy solutions for reducing steel excess capacity (for the extracts from G20 communiqués see Annex 3). Six guiding principles and specific policy recommendations for governments were developed and approved at the GFSEC Ministerial meeting in November 2017 in Berlin (for principles and recommendations see Boxes 1 and 2), which provided a roadmap to help GFSEC members and other governments adjust their policies in a way that would contribute to a more stable and sustainable steel sector. Implementation of the agreed principles and recommendations remains a key priority for the Forum's work.
9. Building on what was agreed in Berlin, GFSEC members established a review process in 2018 that allows members to jointly assess whether identified support measures are market-distorting and contribute to excess capacity. At their meeting in Paris, in September 2018, ministers and their representatives agreed to continue the process of information sharing and peer review to identify market distorting subsidies and other support measures that contribute to excess capacity with the objective of eliminating them. Ministers also agreed to accelerate the reduction of excess capacity, committing to regular reviews of planned or effective capacity increases, and to draw the relevant conclusions based on the agreed principles set out in the Berlin Ministerial report.
10. At the G20 Summit in Buenos Aires in November 2018, G20 Leaders called for members of the Global Forum to fully implement the Berlin and Paris recommendations and commitments, with substantive reporting by June 2019. In response to the G20 Leaders' call, the Japanese Chair submitted a report to Leaders in advance of their summit in Osaka in June 2019. In Osaka, G20 Leaders noted the progress made by the GFSEC and called on relevant Ministers of the GFSEC to explore and reach a consensus by fall 2019 on ways to further the work of the Forum. A report presenting the results of the Forum's work in the remainder of 2019 and the suggested next steps was submitted to GFSEC Ministers for their meeting in Tokyo on 26 October 2019.
11. At the Tokyo GFSEC Ministerial meeting, the vast majority of members agreed that the mission of the GFSEC following the first three years of its work had not been fulfilled, and that its work should be continued to address the excess capacity challenge. More specifically, Ministers representing 31

economies<sup>1</sup> agreed to continue the GFSEC's work on the issue of steel excess capacity on the basis of its established principles and working methods and following the Berlin and Paris Ministerial Reports, as well as Tokyo Chair's Report. They also recognized the need to further enhance the role of the GFSEC as an important open platform where all G20 members and interested OECD members are welcome to join in a spirit of constructive exchange and cooperation related to addressing steel excess capacity for the sustainable development of the steel sector. There was an agreement to host collaborative events in 2020 in conjunction with GFSEC meetings with input and participation from a broad range of steel sector representatives and international associations, to deepen exchange on Berlin Ministerial recommendations.

12. Under the co-Chairmanship of the European Union and the Republic of Korea, the work of the GFSEC has proceeded in 2020 on the basis of the agreements expressed in Tokyo Chair's Report, as well as the recommendations and instructions contained in the Berlin and Paris reports and the statements of G20 Leaders. In addition to this ongoing work, as described below, the GFSEC has also undertaken discussion and analysis of the impact of the Covid-19 pandemic and associated economic disruption on the steel sector and on the continuing problem of global excess capacity. In addition, the GFSEC has further enhanced its engagement with steel industry stakeholders<sup>2</sup>.

#### **Box 1. Six principles that guided the development of policy solutions to reduce excess capacity**

1. Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies and effective policy solutions to enhance the market function and reduce steel excess capacity. To support these, Forum members may set and publish goals, if appropriate.
2. In order to ensure that the steel market operates under market principles, governments and government-related entities should refrain from providing market-distorting subsidies and other types of support measures to steel producers. These include subsidies and other government support measures that sustain uneconomic steel plants, encourage investment in new steelmaking capacity which otherwise would not be built, facilitate exports of steel products, or otherwise distort competition by contributing to excess capacity.
3. Irrespective of ownership all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive directly or indirectly subsidies or other type of support that distort competition by contributing to excess capacity, and should follow the same regulations with economic implications and rules, including bankruptcy procedures. A level playing field should be ensured among steel enterprises of all types of ownership. Global Forum members should also continue to fight protectionism including all unfair trade practices while recognising the role of legitimate trade defence instruments in this regard.
4. Open and competitive markets and a market-driven approach to resource allocation based on the competitive positions of steel enterprises should be the driving forces of the steel sector. New investment, production and trade flows should reflect market-based supply and demand conditions.
5. Wherever excess capacity exists, governments have a role in advancing policies that facilitate the restructuring of the steel industry while minimizing the social costs to workers and communities. Governments should ensure conditions exist for market based adjustment, by

<sup>1</sup> China and Saudi Arabia elected not to continue their membership of the GFSEC beyond 2019.

<sup>2</sup> All participating members agreed to this Ministerial report, with the exception of South Africa. South Africa declared, however, that it remains fully engaged in the dialogue.

facilitating the exit of consistently loss-making firms, “zombie” firms, obsolete capacity facilities and firms not meeting environmental, quality and safety standards. This would lead to a net reduction of capacity.

6. Recognizing that collective policy solutions and transparency are vital for market-based responses by the industry to changing conditions in the steel market, governments should on a reciprocal basis increase transparency through regular information sharing, analysis, review, assessment and discussion as well as regular exchanges about data and concrete policy solutions, among the members of the Global Forum. Governments should ensure that any relevant information on steelmaking capacity developments; supply and demand conditions as well as policy responses including support measures by governments and government-related entities is available on an on-going basis. Members should exchange information on the nature and extent of export credit agency support for new steel projects. The Global Forum will report to the G20 and to interested OECD countries being member of the Global Forum on progress.

*Source:* Report of the Global Forum on Steel Excess Capacity approved on 30 November 2017 in Berlin

## Box 2. Policy recommendations

### a) Framework conditions

1. Members should consider the extent to which their framework conditions and institutional settings ensure proper market functioning and policy objectives consistent with the need for reducing global excess capacity.
2. Particular attention should be given to ensure that: i) competition law, trade and investment policies, and other policies foster a level playing field for competition among companies irrespective of ownership, both domestically and internationally; ii) bankruptcy legislation is effective and procedures are expedited efficiently; iii) the internal financial market is able to price risk and deal with non-performing loans; iv) labour markets and social security systems adequately support adjustment, v) different levels of government do not have conflicting policy objectives and, vi) Procurement policies should not contribute to excess capacity.

### b) Market distorting subsidies and other support measures by government or government-related entities

1. Members should remove and refrain from adopting market-distorting subsidies and other support measures provided by governments and government-related entities that encourage companies to undertake capacity expansion projects, maintain consistently loss-making or uneconomic steel plants in the market, or which otherwise distort the market.
2. All Members should expeditiously share data on market-distorting subsidies and other support measures by government or other government related entities. The proper implementation of subsidies and other support measures that facilitate permanent closures of steel facilities should be carefully analysed and follow strict guidelines.
3. Governments should remove and refrain from market-distorting subsidies and other support measures by government or government-related entities that contribute to excess capacity.
4. Governments may encourage innovations in the steel sector and implementation of best available technologies among steel producers irrespective of ownership insofar as this does not distort competition and contribute to excess capacity.

**c) Fostering a level-playing field in the steel sector**

1. Irrespective of ownership, all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive subsidies or any other types of support that distort competition by contributing to excess capacity.
2. All enterprises acting in a country's steel market should follow the same rules and regulations with economic implications, including bankruptcy procedures.
3. A level playing field should be ensured among steel enterprises of all types of ownership.

**d) Fostering industry restructuring by assisting displaced workers**

1. Governments should favour active labour market policies which maintain and increase the employability of workers who are dismissed as a result of the restructuring.
2. Employment adjustment measures are an important instrument for addressing the social cost of restructuring. This should be provided as support to workers and should not constitute subsidisation to companies, which could maintain existing capacities in place.
3. The specific needs of older workers and other disadvantaged groups affected by restructuring should be taken into account to facilitate their transitioning into alternative occupations.
4. The effectiveness and efficiency of the measures should be evaluated.

**e) Government targets**

1. Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies. To support these, Global Forum members may set and publish goals, as appropriate, to reduce excess capacity through legal and market methods. Capacity reduction targets should be accompanied by actions to eliminate policies that contribute to excess capacity, such as market-distorting subsidies and other types of support by government or government-related entities
2. The criteria for capacity reductions should, irrespective of ownership, simulate the process of market selection with consistently loss making or non-environmentally compliant firms being forced to exit the market. Ex post assessments of whether this is the case should be undertaken.
3. Government objectives to increase capacity should not be accompanied by market-distorting subsidies or other types of support by government or government-related entities that contribute to excess capacity, including input support to steel production.
4. Government targets should take into consideration demand conditions.

**f) Issues related to mergers and acquisitions**

1. Mergers and acquisition should not contribute to excess capacity.
2. Any measures taken to encourage mergers and acquisitions need to be taken in accordance with effective competition law and market principles.

**g) Ensuring export credits do not contribute to excess capacity**

1. Members should refrain from issuing officially supported export credits for steel plants and equipment which contribute to the expansion of global steel capacity that would not otherwise take place but for such subsidisation or not be in line with global steel demand.
2. When such support is provided, the terms and conditions of officially supported export credits for steel plant and equipment should be transparent, reflect market pricing and practices, and take note of guidelines agreed among some members and on-going international negotiations. This

will minimise the subsidisation associated with export credits, and thus avoid supporting the creation of additional steelmaking capacity.

#### **h) Enhance transparency**

1. Members should regularly update the information on sectoral trends (incl. capacity developments and production) and policy measures.
2. The Global Forum should regularly analyse, review, assess and discuss how the provided information aligns with the agreed principles.

#### **i) Continue the process of the Global Forum**

1. The Global Forum will meet at least three times per year to further discuss, assess and review this information, to ask questions and provide answers and share best practices thereon. The Argentinian G20 presidency foresees to hold 3 meetings in 2018.
2. As the priority for 2018, the Global Forum members should swiftly and fully apply the agreed principles and recommendations.
3. In the first half of 2018, members of the Global Forum will share information on the steps taken to eliminate market-distorting subsidies and other types of support by governments and related entities, as well as tangible and swift policy action for their removal.
4. The Global Forum should share best practices of steel industry adjustment and exchange experiences on new sources of steel demand.
5. The Global Forum will report on the process and concrete results in addressing excess capacity to G20 and to interested OECD countries being member of the Global Forum.

*Source* : Report of the Global Forum on Steel Excess Capacity approved on 30 November 2017 in Berlin

## II. The global steel market situation and challenges facing the steel sector

### ***Global economic outlook***

13. After a few years of solid growth, in early 2019 economic indicators started pointing towards a cyclical downturn. In 2019, world GDP growth remained weak with a broad-based slowdown in both advanced and emerging-market economies. For the first time since the global financial crisis, global growth eased to around 3% and stood around 0.3-0.4 of a percentage point below estimated global potential output growth. Global trade growth also fell sharply from the previous year. Merchandise trade volumes contracted in the fourth quarter of 2019, and declined in 2019 as a whole, the first calendar-year fall since 2009. Container port traffic and air freight traffic were also weak ahead of the coronavirus outbreak. Investment activities had also been subdued. Aggregate investment growth in the G20 economies, excluding China, slowed from an annual rate of 5% early in 2018 to only 1% in 2019. Given its pro-cyclical nature and close relationship to broader economic trends, the steel sector had begun to experience slowing growth as of mid 2019.
14. The coronavirus (Covid-19) pandemic that emerged in early 2020 is leading to the worst global recession in decades. The economic downturn has been driven by a combination of demand and supply factors, and has weakened the confidence of consumers and businesses around the world. World GDP declined sharply in the first quarter of 2020, and it plummeted by an unprecedented 7.8% in the second quarter of the year. In its September 2020 Economic Outlook, the OECD projects global GDP to decline by 4½ per cent this year, before picking up by 5% in 2021. In most economies, the level of output at the end of 2021 is projected by the OECD to remain below that at the end of 2019. This global projection is surrounded by many uncertainties. These include the magnitude and duration of new Covid-19 outbreaks, the degree to which current containment measures are maintained or reinforced, the time until an effective treatment or vaccine is deployed, and the extent to which significant fiscal and monetary policy actions support demand. Industrial production has started to recover after the sudden production stoppages associated with containment measures, but only mildly, reflecting the weakness of investment demand amidst high uncertainty and the sharp contraction that has occurred in international merchandise trade, particularly air freight.

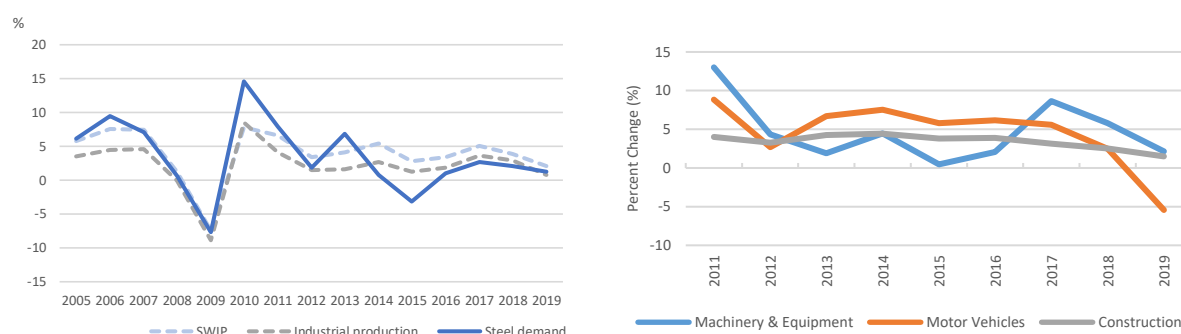
### ***Global steel markets were entering a period of slowdown already before the Covid-19 pandemic***

15. As noted above, with indicators of the business cycle and key steel-using sectors turning negative already in 2019, world steel markets began entering a period of slower growth even before the onset of the Covid-19 pandemic. Global steel demand, which expanded by 7.3% in 2017 and 4.2% in 2018, slowed to 3.5% in 2019 as the economic environment deteriorated and production growth in key steel-using industries began to stagnate (Figure 1).<sup>3</sup> The outlook at the end of 2019 also pointed to a slowdown, with the World Steel Association's October 2019 Short Range Outlook expecting global steel demand growth in 2020 to slow to 1.7%. Moreover, growth in the medium to longer term was projected at the time to continue falling to an average annual rate of less than 1%.

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<sup>3</sup> These nominal growth figures do not adjust for the statistical effects resulting from the closure of unauthorised induction furnaces in China, whereby previously unaccounted demand began to show up in the official statistics. The underlying real growth figures that do make these statistical adjustments are substantially lower than the nominal figures. The adjusted real growth rates are 2.4% in 2017, 2.2% in 2018 and 1.3% in 2019.

**Figure 1. Industrial production and activity in steel-using sectors were leading to a slowdown in global steel demand growth even before the Covid-19 pandemic emerged**



Note: Steel-weighted industrial production (SWIP) is calculated using steel weights of 7 steel using sectors: construction, metal goods, mechanical machinery, domestic appliances, electrical engineering, automotive, other transport.

Source: CPB, OECD, IHS Markit and World Steel Association.

16. The observed downward trend in steel demand served as a clear indicator that developments in demand would not be sufficient to address the problem of excess capacity in the steel sector; such progress would require structural reform on the supply side. Moreover, while demand and supply developments through 2019 helped produce a gradual decline in global excess steelmaking capacity from record levels in 2015, excess capacity remained structurally high. Indeed, although the gap between global capacity and demand moderated from 800 million tonnes in 2015 to 519 million tonnes in 2019, the level of the gap still amounted to nearly the combined steel production of the European Union, India, Japan, the United States, and Russia, the five largest steel-producing economies outside China. Moreover, global steelmaking capacity started to increase again in 2019 after declining for several years.
17. Two particular concerns at the close of 2019 were the reversing trend being observed in Chinese steelmaking capacity, with several very large greenfield projects being initiated particularly in southern and eastern coastal areas supported by the government-led capacity swaps scheme, and Chinese support for or participation in capacity expansion in third countries. Rapid capacity growth was also taking place in Southeast Asia and the Middle East. As discussed further below, GFSEC members have engaged with these issues as part of their work program in 2020.
18. With excess capacity still contributing to over-supply in the market, the upturn in steel prices that began in early 2016 came to an end in the first half of 2018, and prices have since been fluctuating around a downward trend. By January 2020, most of the 2016-17 price gains had been reversed. This decline in prices resulting from over-supply conditions has dampened the overall profitability of the industry.

### ***The Covid-19 pandemic has led to a serious recession in the steel sector***

19. As noted above, market conditions at the end of 2019 were already such that challenging times lay ahead for the steel sector. Weak market fundamentals collided in early 2020 with a crisis that has been unprecedented in its scope and impact. The economic crisis precipitated by the Covid-19 pandemic and health measures taken by government in response was initially driven by a collapse in services, notably air transport, hospitality, recreational facilities and segments of retail trade. But national lockdowns, falling demand and supply chain disruptions quickly spread to key steel-consuming sectors, which have seen significant declines in output this year. Of the main steel-using industries, automotive and mechanical machinery have been hit very hard, but many other sectors that are important for steel demand, such as energy, have also been severely affected. However, the Covid-19 pandemic has affected the whole steel value chain, including upstream activity as well (see Box 3 for the impacts of the Covid-19 pandemic on both downstream and upstream sectors).

### Box 3. The immediate impacts of Covid-19 on the steel value chain: downstream and upstream

#### Downstream effects

Steel is a key intermediate input used heavily in manufacturing – particularly in the production of vehicles, machinery, metal products, and household appliances – as well as in the construction and energy sectors. Steel-using sectors saw output plummet in virtually all economies for which indicators exist, and gave an early indication of the severity of the steel demand decline that countries experienced in the first half of 2020.

##### *Construction*

Construction activity is the single largest steel-consuming sector. The lockdowns in most countries that began in February 2020, and the associated freezing of economic activities, also caused construction activities to pause around the world. However, because construction is considered an essential activity in some parts of the world, certain building activities continued despite the lockdowns, providing at least some minor support to steel demand. This was particularly the case for construction of healthcare facilities, and in some countries construction activities related to infrastructure, residential buildings and utilities were allowed to continue. Nonetheless, many contractors had voluntarily closed their construction sites to help limit the spread of Covid-19, and, overall, global construction activity was cut back significantly over the first few months of this year. Data from IHS indicate that construction activity was severely hit in China (-18%) in the first quarter of 2020, and in South Asia, where it dropped by more than 20% in the second quarter of 2020. Construction activity in Europe and North America dropped by approximately 15%-10% in the second quarter of 2020 (Figure 2, upper-left panel).

##### *Automotive*

The automotive sector has been severely affected by the crisis. Demand for cars plummeted in all regions at the start of the crisis. Global demand for cars declined to an annualised volume of 44 million units in April 2020, down by 52% from 91 million units in December 2019. The crisis forced automotive producers around the world to suspend production in response to strengthened containment measures and to protect workers' health. Car manufacturers also experienced supply chain issues and collapsing demand for vehicles across most regions at the height of the pandemic. By March 2020 automotive manufacturers in all regions of the world had announced production cutbacks and temporary plant closures. Production suspensions continued through April, and only in May had production started to gradually resume in some countries. According to IHS, production of motor vehicles, trailers and parts plummeted around the world, with the most significant drops occurring in Q1 2020 in China (down nearly 30%) and in Q2 2020 in the remaining regions, where the drops varied from 50% in North America, to around 30% in Europe and South Asia compared to the last quarter of 2019 (Figure 2, upper-right panel).

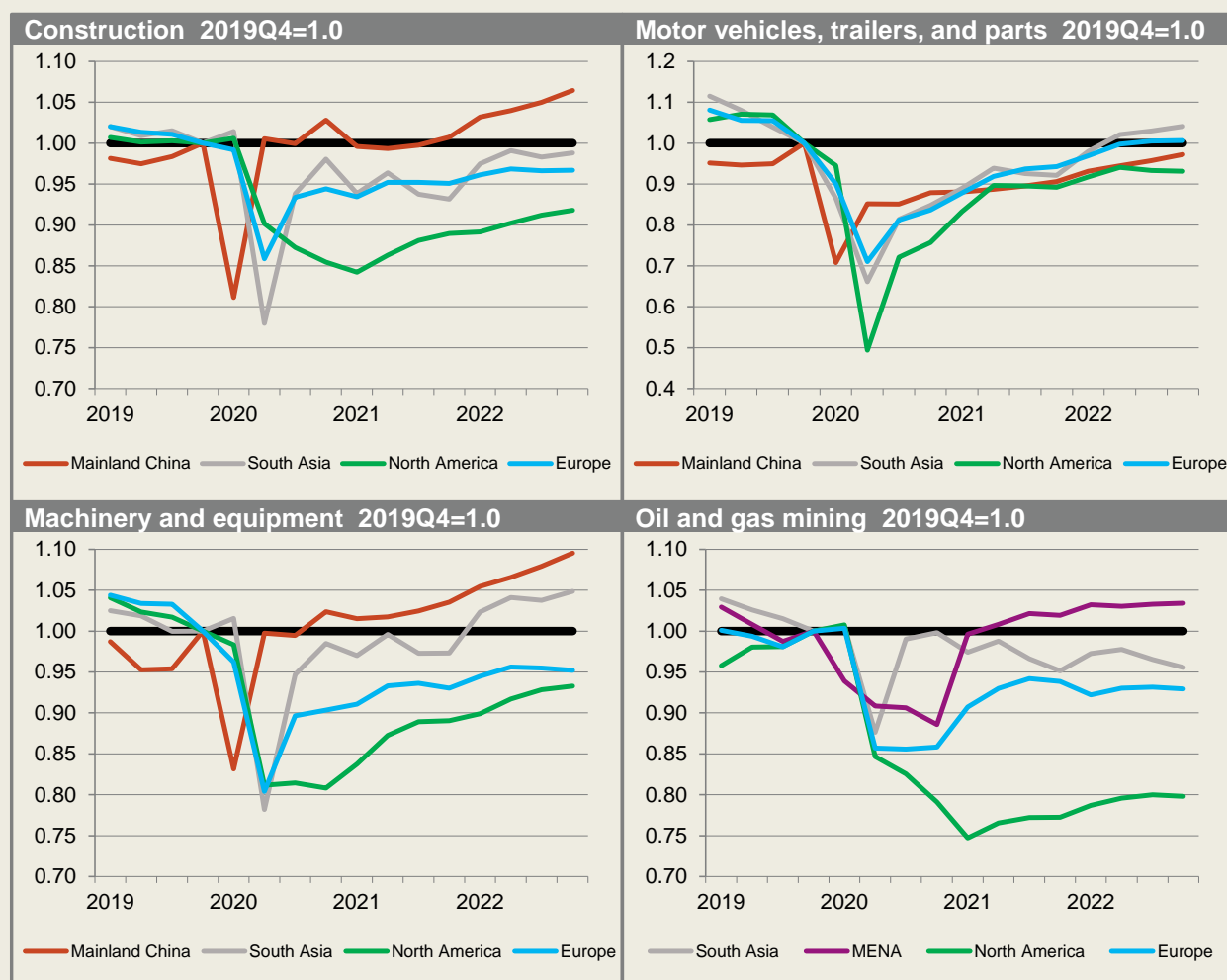
##### *Mechanical machinery*

The fast spread of the Covid-19 virus and the economic impacts of the pandemic caused a significant decrease in orders for machinery from manufacturing, and the overall trend of industrial machinery orders suffered. Some machinery manufacturers faced both supply-chain and demand disruptions and significant declines in their orders. Builders of machine tools (machine tools enable the production of other industrial equipment and machinery and thus can provide an early indication of conditions among machinery manufacturers) across Europe, Japan and the United States reported very low operating rates and steep declines in their order books. Data from IHS suggest that, compared to the levels of Q4 2019, Chinese machinery and equipment production was particularly hit in Q1 2020, falling by 18%, whereas in other regions the effect of Covid-19 was particularly felt in the second quarter of the year, with machinery and equipment production decreasing by approximately 20% in South Asia, North America and Europe (Figure 2, lower-left panel).

### Energy sector

The oil and gas sector is very important for steel demand. The main energy uses of steel plate and tubular products – drilling, pipelines and platform work – have been severely curtailed, as energy investment contracts sharply along with falling energy demand and petroleum prices. Following price declines caused by international supply side developments in early March 2020, the pandemic triggered the sharpest fall in world oil demand in history, and has set in motion an unprecedented decline in global energy investment during the first half of 2020, according to the International Energy Agency. As of May, the IEA was estimating a year-on-year fall in oil and gas sector investment in 2020 of around one-third. Similarly, IHS data show significant drops in oil and gas mining activities with losses in the order of 15% in the second quarter of 2020 and a prolonged slowdown of about 20% in North America (Figure 2, lower-right panel). Steel is also important for all areas of renewable energy. It is used in the construction of hydropower stations, wind turbines as well as in the base, pumps, tanks and heat exchangers of solar power installations. According to the International Energy Agency, fewer installations that produce renewable electricity are expected to be built in 2020 because of the impact of Covid-19 pandemic, marking the first annual decline in new installations that produce renewable electricity additions in 20 years.

**Figure 2. Outlook of key downstream sectors**



Note: data are based on the July 2020 IHS forecast

Source: IHS Markit, presentation at the 88<sup>th</sup> session of the OECD Steel Committee, September 2020

### Upstream effects

Logistics and transportation issues are critical for steelmaking raw materials, notably iron ore, coking coal and steel scrap. While few large miners recorded Covid-19-related disruptions in their first quarter 2020 reports, there were exceptions. Strict lockdown rules led to the closure of mining operations in South Africa, while high rates of contagion triggered closures at coal mines in Poland and legal disputes over the application of measures to prevent contagion led to the temporary suspension of some iron ore mines in Brazil. Additionally, the deferral of non-essential construction work may have delayed the commissioning or the restart of mining capacity.

The impact of Covid-19 on supply chains appears to have been more disruptive for steel scrap operations. Compared to mines, these are geographically less concentrated and less remote, and rely on the collection, transportation and pre-processing of scrap derived from end-of-life steel-containing goods and from offcuts of steel-consuming manufacturing processes. Both these scrap-generating activities were curtailed by lockdowns in traditional scrap abundant regions. For the most part, scrap yards were considered essential businesses and did not have to close during lockdowns. However, in some economies, lockdown rules, a sick or quarantined work force and – in India for example – congestions at container ports hampered scrap collection and trading at normal rates.

20. Forecasts of steel demand point towards a significant decline in 2020 with only partial recovery in 2021. The latest World Steel Association's Short Range Outlook released in October 2020 points to a decline in steel demand of 2.4% in 2020, to a level of 1 725 mmt (in terms of finished steel), followed by an increase of 4.1% in 2021.<sup>4</sup> The forecast reflects strong demand declines across most emerging and developed economies, offset by projected growth in China this year. There is significant heterogeneity among economies in the speed of recovery and in the rebound of economic activity since the reopening after the first wave of the pandemic as well as the fact that many steel using sectors remain below their pre-Covid-19 level. The regional breakdown shows most regions posting demand declines between 10 and 20% this year, and most with only partial recoveries in 2021, with the exception of China where demand is expected to grow by 8% this year, driven by government infrastructure stimulus and the property market.<sup>5</sup> Growth in China would remain flat in 2021, however, reflecting a reduction in stimulus policy and the limited rebound in manufacturing activity. There are, however, significant downside risks to the forecast, associated with a second wave of infections and potential lockdown measures, which will weigh on employment and investments.

### ***The supply response by steel producers and governments to Covid-19: Divergent trends across economies***

21. The steel industry and the whole steel value chain has been impacted by the Covid-19 crisis in a very significant way, and this is clearly visible in the supply responses across many countries to the pandemic. As described below, steel producers in GFSEC member jurisdictions stopped production, partially idled furnaces and mills in response to the pandemic. The idling of plants has been significant

<sup>4</sup> See the media release at: <https://www.worldsteel.org/media-centre/press-releases/2020/worldsteel-Short-Range-Outlook-October-2020.html>

<sup>5</sup> As noted above, the forecasts in the World Steel Association's latest (October 2020) Short Range Outlook for China are no longer adjusted for potential increases in demand caused by the appearance in China's official statistics of demand previously served by unlicensed steelmakers. In past World Steel Association outlooks, the difference between the nominal and adjusted, real growth rates in China has been substantial. In addition, as noted in greater detail below, part of the increased steel demand in China in 2020 appears to be driven by producers and traders building significant quantities of inventory.

across many GFSEC members (see Annex 1). Partially as a result of this significant idling of plants at the height of the pandemic response, production levels have declined sharply this year in most participating jurisdictions. According to the data gathered by the World Steel Association, production levels in some GFSEC member economies were in the range of 20% to 40% lower in the second quarter of 2020 relative to the second quarter of 2019 (Figure 3). Data for available for the third quarter show steel production still down significantly outside of China, though at a more moderate pace than the second quarter. As of the date of this report, many of the production adjustments instituted in the early months of 2020 remain in place, such that utilization rates in member jurisdiction steel industries remain well below levels necessary to maintain profitable operations.<sup>6</sup> Table 10 in Annex 1 lists some production stoppages and adjustments in GFSEC economies.

22. The supply-side adjustments witnessed in GFSEC member jurisdictions stand in stark contrast with developments in China. Although China was the first economy where the impacts of Covid-19 became visible<sup>7</sup>, steel production in China in the early months of the pandemic did not decline, but increased instead. According to China's National Bureau of Statistics, China's crude steel production in the first two months of 2020 (during which lockdown measures in China were at their most widespread and stringent) increased by 3% over the same period in 2019.<sup>8</sup> Through the second and third quarters of this year, Chinese steel production recorded successive record-high volumes. By August, Chinese crude steel production reached a new historical high of nearly 95 million tonnes.<sup>9</sup> These production levels have been associated with an accumulation of significant steel inventories (Figure 4). Although they have moderated slightly since February and March, Chinese steel inventories are currently at very high levels, with dealers' inventories 43% higher in September 2020 compared to their level one year earlier and producers' inventories in July 2020 (the latest month for which the data are available) at a level 19% higher than a year ago, according to data from MySteel.com and the China Iron and Steel Association (CISA), respectively. It is important to note that the data on producers' inventories are based on statistics reported by member companies of CISA, and as such may not capture the full universe of steel manufacturers' inventories. Inventories have also been much higher in 2020 relative to the situation in 2015, at the peak of the recent steel market crisis. For example, the average of monthly dealers' inventories in 2020 (up until the latest month available) is 47% higher than the monthly average recorded for the year 2015, while the corresponding average of producers' inventories is 13% higher than in 2015. As discussed further in Section IV, the increase in Chinese steel production and increase in inventories poses significant potential risks at a time of contracting demand and production retrenchment in markets outside China.

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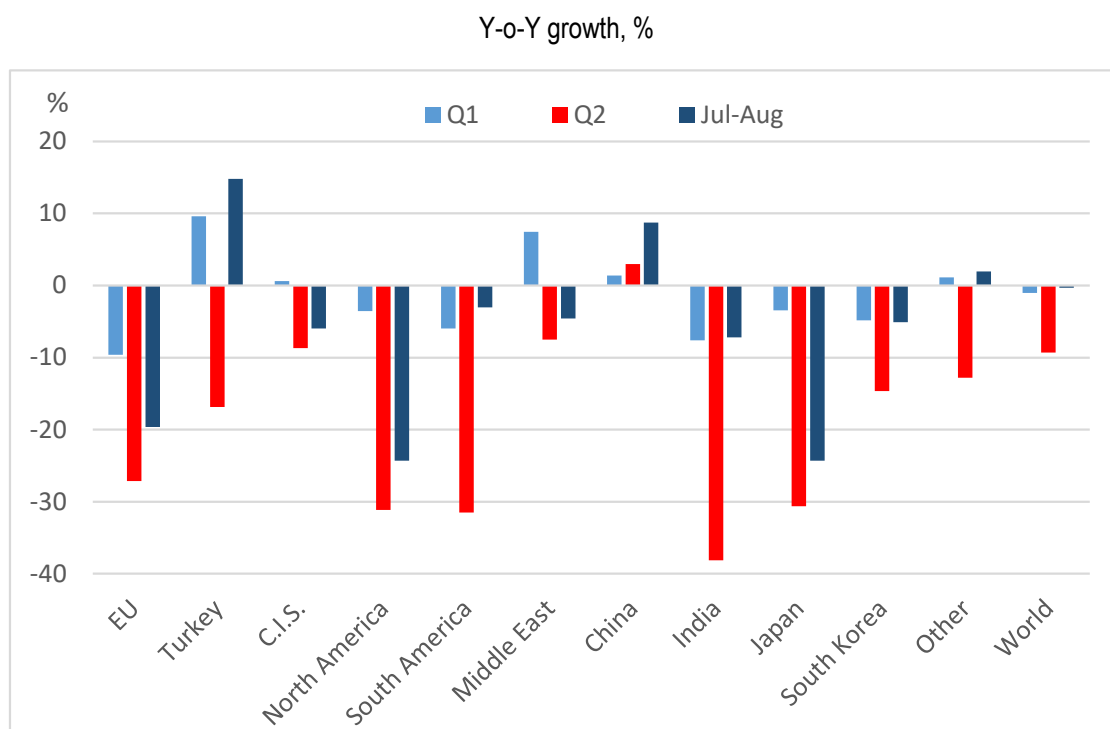
<sup>6</sup> Capacity utilisation rates in GFSEC member economies are currently well below thresholds for reaching profitability.

<sup>7</sup> On 22 January, the central government imposed lockdown in Wuhan city, where the pandemic began. As the number of Covid-19 cases was increasing, the government extended the Lunar New Year holidays until February 2 while some provinces asked local enterprises to resume activities after February 9.

<sup>8</sup> National Bureau of Statistics of China: <http://data.stats.gov.cn/english/index.htm>

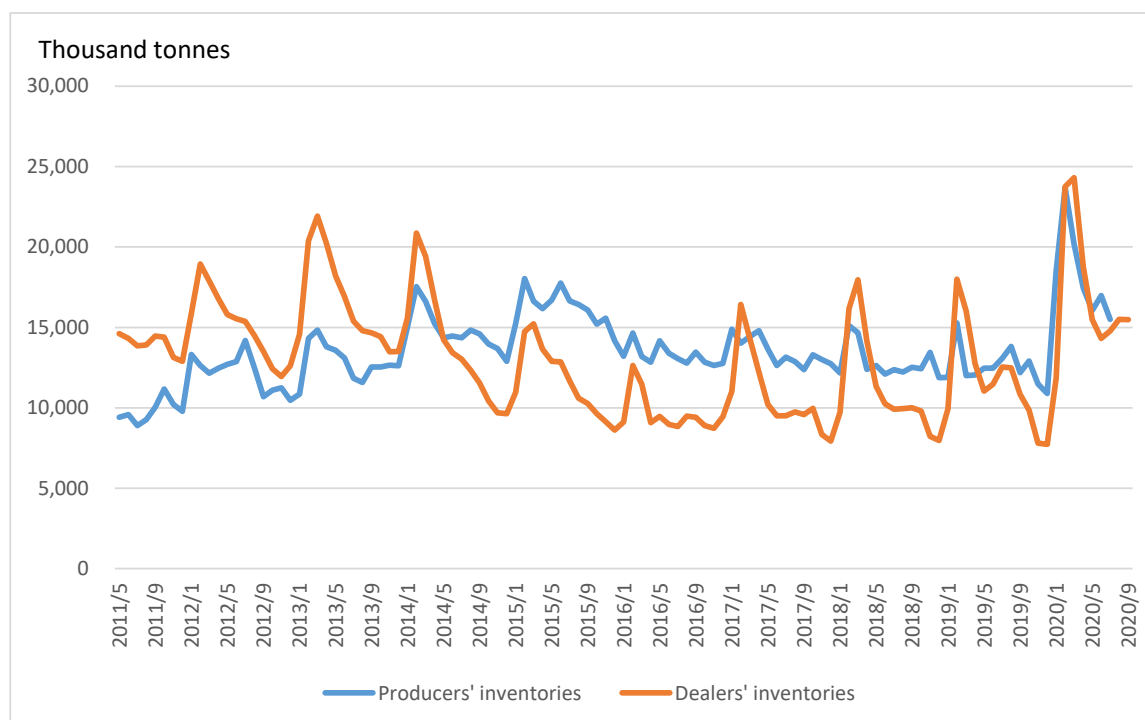
<sup>9</sup> See <https://www.worldsteel.org/media-centre/press-releases/2020/August-2020-crude-steel-production.html>

Figure 3. Crude steel production developments during the Covid-19 outbreak



Source: World Steel Association.

Figure 4. Chinese inventories of finished steel products



Note: The Last data point represents September 2020 for dealers' inventories, and July 2020 for producers' inventories

Source: MySteel.com for dealers' inventories and the China Iron and Steel Association (CISA) for producers' inventories.

### ***Analysis of the global capacity-demand gap based on the demand outlook***

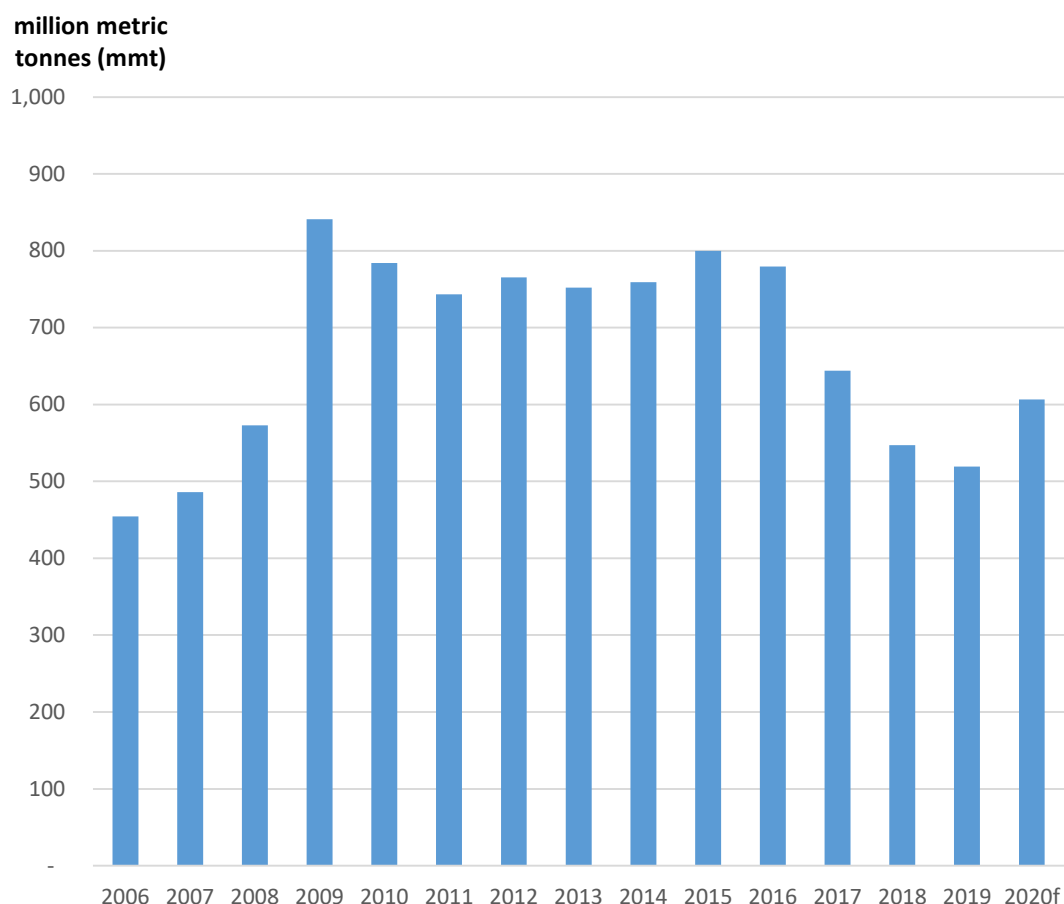
23. The immediate implication of the demand outlook is that the global capacity-demand gap, an indicator of over-supply risks for the steel market, is going to increase significantly to at least 606 mmt in 2020 (Figure 5). Because of the large uncertainty due to the evolution of the pandemic and the extent of government stimulus across countries, this figure is most likely to be a minimum estimate of global excess capacity.<sup>10</sup> Indeed, other analyses of the effects of Covid-19 have shown significantly more negative effects of the pandemic on global steel demand.<sup>11</sup>
24. This reversal in excess capacity can lead to trade disturbances, trigger sharply lower steel prices and hurt the economic sustainability of the steel industry. Of course the eventual capacity gap that emerges will depend on adjustment on the supply side as well, itself determined to a large extent by government policy and industry responses. How policymakers and industry participants react in the current crisis can either alleviate or exacerbate the extent of the gap in the future, and will ultimately determine the longer-term health and economic sustainability of the industry for years to come.
25. Previous experiences show that steel crises arise when both governments and industry delay the structural adjustment that is necessary to alleviate excess capacity. Moreover, when excess capacity is not addressed in a meaningful way, the eventual adjustment is more abrupt and painful, and the economic and social consequences more severe.
26. Addressing the problem of excess capacity in the past has been realised through a broad range of measures that encouraged structural adjustment and facilitated the closure of inefficient, economically unviable steelmaking facilities, largely in line with the principles laid out in the Berlin Ministerial Report. As noted in that report, wherever excess capacity exists, governments have a role in advancing policies that facilitate the restructuring of the steel industry while minimizing the social costs to workers and communities. Governments should ensure conditions exist for market-based adjustment, by facilitating the exit of consistently loss-making firms, “zombie” firms, obsolete capacity facilities and firms not meeting environmental, quality and safety standards. The key challenge has been to coordinate different policy levers to obtain a policy mix that is conducive to restructuring the steel sector while enhancing market function and ensuring competitive conditions. Subsidies and other support measures that facilitate the permanent closure of steel plants may be beneficial in the short term, but their proper implementation needs to be carefully analysed and follow strict guidelines.
27. Structural adjustment reinforced by such measures has been particularly successful when implemented in a continuous and consistent manner. Where sustained efforts for structural adjustment have been maintained over the long term, the social costs of dealing with the next steel crisis have been reduced, as there is less scope or need for drastic realignment to be forced upon the steel industry. GFSEC governments and industry share the view that such lessons from past experiences can inform present and future actions.

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<sup>10</sup> In addition, as noted above, it should be kept in mind that this figure does not account for the statistical effects resulting from the closure of unauthorised induction furnaces in China.

<sup>11</sup> OECD (2020), Steel Market Developments, forthcoming.

Figure 5. Global steel capacity-demand gap set to increase in 2020



Source: OECD.

***Future trends in the mid to long term: capacity expansions around the world may widen the capacity-demand gap***

28. Prior to the Covid-19 pandemic, global future steel demand growth in the mid- to long-term (until 2040) was expected to be in the 1% per annum range.<sup>12</sup> However, the Covid-19 crisis may reshape the way steel is used in our economies with longer term and multifaceted impacts on steel using sectors. In the construction sector, for example, the pandemic may impact how urban agglomerations function, for example, challenging the importance of office areas. Due to modern solutions in ICT, remote working may become more important contributing to a reduction in daily commutes and changed demand for urban transport infrastructure. Demand for more spacious apartments and the redesign of houses or apartment buildings taking into account the experience of lockdowns may also increase.
29. In the automotive sector, urban mobility systems may transform to, adjust to the potential pandemic risks. More efficient transport organisation and a relocation of the offices from the congested areas may require the replanting of transport systems. Social distancing rules make the development of public transport systems hard to predict as people stay at home or prefer private means of transport.

<sup>12</sup> See Chair's Report, GFSEC Ministerial Meeting, Tokyo, October 2019 at: [https://www.meti.go.jp/english/press/2019/pdf/191026\\_001-2.pdf](https://www.meti.go.jp/english/press/2019/pdf/191026_001-2.pdf)

30. At the same time, long-term structural changes in demand for steel will persist. Mechanical machinery and electrical engineering may receive additional support from robotics and further automation. Moreover, greater environmental awareness is likely to foster the move towards the circular economy, which is likely to have an important impact on steel demand, as it calls for reducing, reusing, remanufacturing and recycling of materials.
31. Stakeholder contributions have suggested that future demand for steel products is shifting towards advanced and innovative steel products. With overall demand growth slowing in the long term, there is less of a need for growth in steelmaking capacity, but rather a shift towards the development of more innovative steel products to meet the changing needs of downstream sectors.
32. Furthermore, an examination of the relationship between steel use and GDP growth suggests that structural changes such as the shift towards lighter and stronger steel products, as well as emerging trends such as servicification and the transition to a circular economy, are likely to lead to lower than expected future steel demand, even when taking into account differences in regional trends.
33. On the capacity side, certain economies are building up their steel capacities significantly, and the OECD has identified numerous new steelmaking capacity projects around the world, which are either already underway or in the planning stages. Information on announced investment projects suggests that, globally, 44 mmt of gross capacity additions are currently underway or planned and could come on stream during the three-year period of 2021-23.<sup>13</sup> In particular, Asia and the Middle East regions may experience a considerable increase in steelmaking capacity over the next few years if all the projects current under way or planned are ultimately realised.
34. The total capacity potentially being added translates into an additional increase of 1.8% in global capacity in the 2021-23 period. These figures suggest that planned capacity increases, if not guided by Berlin Ministerial principles, are already likely to overshoot increases in demand, with even greater risks if demand growth falls below expectations. The balance between planned investments and expected demand is an issue that should be carefully followed by the Forum as we move forward.
35. As discussed further below (see Section IV), an important dimension to follow is building of capacity in foreign jurisdictions to offset domestic capacity decreases. Among the new steelmaking capacity projects identified by the OECD, several represent cross-border investments. This underlines the importance of continuing the Forum's work pursuant to paragraphs 67 and 68 of the Berlin Ministerial report. Increases in capacity should follow demand conditions and market forces, investment should be economically sustainable in the long term and fair international trade should play its full role in meeting expected increases in demand.
36. These figures suggest that if the current trend in capacity increases continues, and no action is taken to reverse it, the global excess capacity problem will persist or even worsen. As noted in the Paris Ministerial report, at constant capacity and expected long-term demand growth, it would take decades to fully absorb the current capacity-demand gap. For example, assuming average steel demand growth of 1% per annum in the long term (2022 and beyond), it would take until around 2045 before demand would be at the current level of global capacity.
37. All this suggests that there are legitimate grounds for concern that the imbalance between the steel demand and supply may turn out to be even more pronounced. There is a clear sense of urgency for GFSEC members to maintain and enhance efforts to rein in excess capacity where it exists, and to be cautious about setting targets for capacity expansion based on expected future market developments. In this context, participation of all G20 and interested OECD economies in the GFSEC process is important for addressing jointly the excess capacity challenge.

### III. Work and progress of the GFSEC in 2020

38. Since 2017 GFSEC members have exchanged information on crude steelmaking capacity developments and government policies and measures affecting excess capacity through the

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<sup>13</sup>

According to the latest OECD capacity estimates based on information until June 2020.

information sharing mechanism. The information sharing allowed transparency to build among GFSEC members and is a key pillar of the GFSEC work. A review process, which was established in 2018 pursuant to principle VI of the Berlin Ministerial Report, complements the information sharing and allows members to jointly assess subsidies and other support measures that were reported by members themselves, or which were alleged by other members.

39. This section provides key insights from the information sharing and review processes in 2020 covering key steelmaking capacity developments as well as government policies and support measures in GFSEC member economies. It also discusses the outcomes of the GFSEC exchanges with steel industry stakeholders in 2020 focusing on new sources of steel demand and circular economy and implications of these for tackling excess capacity.

### ***Key insights from the information sharing and review in 2020***

#### *Steelmaking capacity developments*

40. During the two rounds of information sharing in 2020, GFSEC members exchanged information and reviewed developments on steelmaking capacity in their economies. Members also discussed capacity developments taking place in G20 economies that are not members of the GFSEC, which are discussed in depth in Section IV of this report (see Table 1 for global capacity developments). All but one of the GFSEC's 31 members participated in the information sharing rounds conducted by the GFSEC in 2020. These members provided updated data on crude steelmaking capacity in 2019, confirmed or provided updated data for 2014-2018 and, where applicable, provided preliminary information on capacity developments in the first half of 2020. India was the only GFSEC member that did not participate in the information sharing process in 2020. In light of India's non-participation, this and subsequent sections of the report use public data from the OECD to measure India's crude steelmaking capacity.
41. Based on data submitted by GFSEC members (and data from the OECD for India), total steelmaking capacity among GFSEC members amounted to 953.4 mmt in 2019. This combined capacity corresponds to about 40% of global capacity and 75% of capacity outside China. These data indicate that total combined capacity among GFSEC economies declined from 957.2 million tonnes in 2018 to 953.4 million tonnes in 2019. On the basis of these data, between 2014 and 2019 steelmaking capacity in the 31 GFSEC member economies increased by 5.1 mmt.

Table 1. World crude steelmaking capacity: 2014-2019

(1000s metric tonnes)

	2014	2015	2016	2017	2018	2019	Change (volume) 2014-2019	Change (%) 2014-2019	Share world 2019 (%)	of in
<b>GFSEC members</b>										
European Union, of which*:	214,996	211,496	207,614	206,059	205,634	203,134	-11,862	-5.5%		8.4%
Germany	50,881	50,881	50,081	49,921	50,041	50,041	-840	-1.7%		2.1%
Italy	38,606	36,206	36,206	36,456	36,456	36,456	-2,150	-5.6%		1.5%
France	22,021	22,021	21,941	21,466	21,466	18,966	-3,055	-13.9%		0.8%
Spain	20,310	20,310	19,610	18,860	18,860	18,860	-1,450	-7.1%		0.8%
Poland	12,260	12,260	12,260	12,560	12,710	12,710	450	3.7%		0.5%
Belgium	8,620	8,620	8,900	8,900	8,900	8,900	280	3.2%		0.4%
Austria	8,595	8,595	8,595	8,595	8,595	8,595	0	0.0%		0.4%
Netherlands	7,260	7,260	7,000	7,000	6,813	6,813	-447	-6.2%		0.3%
Sweden	5,950	5,950	5,950	5,950	5,950	5,950	0	0.0%		0.2%
Slovak Republic	5,520	5,520	5,520	4,860	4,860	4,860	-660	-12.0%		0.2%
Greece	4,760	4,760	4,760	4,760	4,760	4,760	0	0.0%		0.2%
Finland	4,530	4,530	4,530	4,530	4,530	4,530	0	0.0%		0.2%
Luxembourg	3,322	3,322	2,400	2,400	2,400	2,400	-922	-27.8%		0.1%
Hungary	2,650	2,650	2,050	2,050	2,050	2,050	-600	-22.6%		0.1%
India**	120,300	121,400	130,500	134,200	137,000	138,700	18,400	15.3%		5.7%
Japan	136,268	135,631	134,447	132,411	131,055	131,205	-5,063	-3.7%		5.4%
United States	121,345	118,720	120,170	120,170	119,730	119,480	-1,865	-1.5%		4.9%
Russian Federation	84,755	84,755	85,755	85,855	85,395	86,897	2142	2.5%		3.6%
Korea	79,675	80,275	80,775	80,775	80,175	78,345	-1,330	-1.7%		3.3%
Brazil	47,410	47,960	51,450	51,450	51,450	51,450	4,040	8.5%		2.1%
Turkey	50,213	50,439	51,506	51,181	51,884	49,498	-715	-1.4%		2.1%
Mexico	26,555	29,105	29,505	29,505	29,505	29,155	2,600	9.8%		1.2%
Canada	17,342	17,467	17,467	17,467	17,467	17,467	125	0.7%		0.7%
Indonesia	9,941	10,031	10,681	10,681	11,905	11,905	1,964	19.8%		0.5%
United Kingdom	15,097	11,197	11,202	11,202	11,202	11,202	-3,895	-25.8%		0.5%
South Africa	10,110	9,230	9,410	9,626	9,786	9,930	-180	-1.8%		0.4%
Argentina	6,532	6,650	6,650	7,300	7,300	7,300	768	11.8%		0.3%
Australia	5,570	5,570	5,570	5,570	5,570	5,570	0	0.0%		0.2%
Switzerland	1,370	1,370	1,370	1,370	1,370	1,370	0	0.0%		0.1%
Norway	800	800	800	800	800	800	0	0.0%		0.0%
<b>GFSEC total</b>	<b>948,279</b>	<b>942,096</b>	<b>954,872</b>	<b>955,622</b>	<b>957,228</b>	<b>953,408</b>	<b>5,129</b>	<b>0.5%</b>		<b>39.5%</b>

**Non-participating  
G20 economies**

China	1,224,700	1,210,000	1,188,600	1,160,100	1,123,000	1,147,500	-77,200	-6.3%	47.5%
Saudi Arabia	11,200	11,500	11,600	11,600	11,600	11,600	400	3.6%	0.5%
<b>Rest of the world</b>	249,790	257,683	261,454	274,200	286,019	299,662	49,872	20.0%	12.4%
<b>World total</b>	<b>2,433,938</b>	<b>2,421,248</b>	<b>2,416,495</b>	<b>2,401,491</b>	<b>2,377,816</b>	<b>2,413,969</b>	<b>-19,969</b>	<b>-0.8%</b>	<b>100.0%</b>

Notes: \* The European Union's figure refers to the total capacity of all the European Union Member States. \*\* The figures for India are based on the latest OECD estimates as of September 2020. GFSEC members are listed in the table by the size of their capacity in 2019. Please note that the capacity data for GFSEC members in this table come from submissions by the members in the context of the GFSEC information sharing exercise. The capacity data for India, non-participating G20 economies, and the world are the latest OECD steelmaking capacity figures (as of September 2020) based on the OECD's plant-level database. Because the OECD figures may differ from the capacity data submitted by GFSEC members in the context of the information sharing exercise, the GFSEC and non-GFSEC figures in this table may not be necessarily comparable.

Sources: Submissions by GFSEC members and the OECD.

*Government policies and measures*

42. During the two rounds of information sharing in 2020, members provided updated information on their measures and practices associated with the facilitation of closures, maintenance or support of the domestic production base, corporate restructuring and industry upgrading and innovation. These members also provided updated information on existing measures and practices in the following policy areas: framework conditions, fostering a level-playing field in the steel sector, fostering industry restructuring by assisting displaced workers; government targets; issues related to mergers and acquisitions; and officially supported export credits for goods and services associated with crude steelmaking projects. A high-level summary of the information shared in the context of the two rounds of information sharing in 2020 is provided in Annex 1 while the detailed information is available through the GFSEC members' online portal. As with information on capacity developments, India did not participate in the GFSEC's information sharing on government policies and measures in 2020.
43. During the two rounds of information sharing in 2020, five members (Canada, Indonesia, Russia, United Kingdom and the United States) provided additional information on specific subsidies and other support measures by government or government-related entities. More specifically, Canada reported financial contributions that were provided to five companies to support the upgrade of their facilities and modernize production lines. Indonesia provided additional information on the tax incentives the steel sector is eligible for. Russia shared information on the temporary scrap quotas that were established by the government for the period from 1 September 2019 until 31 December 2019. The United Kingdom reported a support measure aimed at assisting a steel company to comply with its obligations under the EU's Emissions Trading Scheme, related to the UK's exit from the European Union. The United States provided information on a cost refund that was provided to a steel company for worker training and upgrading of employee skills, and tax credits to support R&D, job creation and capital investment. Members who shared information on these measures, however, specified that the reported measures do not distort markets or contribute to excess capacity. In some cases, the reported measures were not specific to the steel sector.
44. Some members (Korea, the United Kingdom and the United States) have also shared information on the incentives that have been recently put in place to respond to the impacts of the Covid-19 pandemic. These measures are available to all sectors, not solely to the steel sector.

45. Two new rounds of the review process took place between February 2020 and August 2020. In the context of the Covid-19 pandemic and consequent measures taken, the review process took place through the written exchanges between members. In what follows, the salient results of written exchanges between members are presented. Annex 1 overviews the different issues discussed by GFSEC members during the review exercise in 2020.
- Australia: The discussion centered around repayment of a tax deferral provided to a steel company, and local content requirements. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report
  - European Union: The discussion centered around loans granted to steelmaking companies as well as equity investment by an EU Member State. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report
  - Indonesia: The discussion centered around debt restructuring of a steel company. While discussion continues, the evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report
  - Russia: The discussion centered around scrap quotas. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report
  - Turkey: The discussion centered around tax benefits and government support on energy prices granted to a steel producer. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report
  - United Kingdom: The discussion centered around a loan provided to a steel company as well as sources of financing that were used for recent M&A deal that involved the UK steel company. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report
46. With systematic reviews and discussion of the capacity and policy developments, the information sharing and review processes remain the main pillars of GFSEC work contributing to a greater transparency of the policy setting, which is something crucial in the context of excess capacity and the Covid-19 crisis that hit the steel industry around the world. Thus, continued participation of all G20 and interested OECD economies in this process in a spirit of constructive exchange and cooperation is crucial for bringing more transparency to steelmaking capacity developments as well as policy developments and support measures affecting the steel industry.

### ***Strengthened cooperation with steel industry stakeholders***

47. Global Forum members have been engaging industry and key stakeholders in their exchanges since the establishment of the GFSEC in 2016. Steel industry representatives have regularly participated in GFSEC meetings where they shared their experiences with steel industry restructuring and adjustment, exchanged views on the situation of and future outlook for the steel sector, and outlined key lessons to prevent the re-emergence of excess capacity in the future. At the GFSEC Ministerial meeting in Tokyo, GFSEC members agreed to host collaborative events with input and participation from a broad range of steel sector representatives, to deepen exchange on Berlin Ministerial recommendations.
48. The European Union and Republic of Korea, identified as one of the priorities of their co-Chairmanship, engagement of industry and key stakeholders in GFSEC exchanges in a more regular and structural manner. To this end, dedicated events focusing on new sources of demand, the impact of the circular economy as well as market developments in the ASEAN and Middle East regions were

planned for March and September 2020. The Covid-19 pandemic and consequent measures led to a postponement of the March event, but industry representatives provided written contributions on the relevant topics. A stakeholder event was organised in July 2020 where a rich discussion took place on the impacts of Covid-19 on global steel markets. At the July event, industry stakeholders also informed the GFSEC about the impacts of the circular economy and other long-term trends on steel demand and excess capacity.

49. The main themes described by industry stakeholders are summarised below. The individual presentations made by the large number of stakeholders that participated in these discussions, including from national, regional and global steel industry associations, can be consulted on the GFSEC website.<sup>14</sup> This website, launched in the spring of 2020, facilitates open communication and sharing of information with steel industry and other stakeholders, provides an overview of the GFSEC's outcomes over the past years, and informs the public about past and upcoming activities of the Global Forum.

#### *Covid-19 and the steel market crisis*

50. In the context of the Covid-19 pandemic, GFSEC members and industry representatives have been discussing the impacts of the current crisis on steel markets, the expected recovery path, policy responses to the crisis, and the longer-term effects that the crisis might have on excess capacity and the overall health of the global steel industry. Steel industry stakeholders have stressed unanimously that the Covid-19 crisis is having a significant, negative impact on the steel industry. They noted the significant decrease of apparent steel consumption since the emergence of the pandemic in early 2020, which should also be seen against the background of falling demand across many economies and regions in 2019. The crisis is also taking a significant toll on workers; a large share of the steel workforce is suffering from an increasing number of lay-offs and reduced working hours, highlighting the troubling social dimension of the crisis.
51. To respond to the difficult market situation, steel producers in GFSEC member economies have been adjusting their production levels downwards to meet the lower market demand for steel. Steel industry representatives from a host of different countries and regions noted that, while they have been reducing their production, with a number of their plants having been idled or their operations scaled down, steel production has been growing strongly in China. This has resulted in a significant accumulation of steel inventories in China. Industry stakeholders agreed that if these stocks are released into the international market, this would endanger recovery prospects for steel producers around the world, who are already under significant strain from the effects of the pandemic.
52. Against a backdrop of already very difficult conditions in steel markets, industry stakeholders raised concerns that the gravity of the situation was being exacerbated by further growth in capacity. In this context, members discussed the numerous investment projects taking place particularly in the ASEAN region, which is already facing a precarious overcapacity situation that is threatening the viability of local steelmakers. Members and industry stakeholders stressed the importance of addressing the overcapacity issue and highlighted the role of the GFSEC in this process. As the steel industry is now facing a bigger crisis compared to that during the financial crisis of 2009, stakeholders continue to emphasise that the steel industry community is relying on the GFSEC to find a multilateral solution to the problem of excess capacity. Steel industry representatives made reference to the GFSEC guiding principles and recommendations approved in Berlin in 2017, concluding that their implementation by all steelmaking economies would help to address the excess capacity problem and ensure the long-term viability of the steel sector.

#### *New sources of steel demand*

53. The global steel industry currently has more than sufficient production capacity to meet society's present and future needs for steel. While steel demand is shifting towards more advanced steel

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<sup>14</sup> The GFSEC website can be accessed at [www.steelforum.org](http://www.steelforum.org)

products for use in a number of downstream applications, this does not mean that more crude steelmaking capacity necessarily needs to be built to meet that demand. Many of the advanced steel products that society is beginning to require can be manufactured by enhancing the properties of steel and reducing the actual volumes of steel required in those applications. Indeed, emerging trends in new sources of steel demand show that the world's steel industry may need to consider how to better use existing capacity to meet the evolving demands of downstream steel-using industries rather than add more crude steelmaking capacity in an environment of significant global excess capacity.

54. Industry stakeholders have contributed to the GFSEC by helping members better understand emerging trends in new sources of steel demand. Ongoing research suggests a gradual slowdown in global steel demand in the long term, with factors such as slowing demand for vehicles, slowing global trade and demand for containerships, coupled with moderate growth in construction and energy investment serving as a background to the outlook. Stakeholder discussions have indicated that, overall, the age of rapid growth in steel demand is over, and with stabilisation in steel demand growth in China, global demand for steel is expected to slow down in the years ahead.
55. In the automotive sector, demand for steel will be centred on high strength steel and highly formable steel, while in the construction sector there will be a need for various high performance steels to meet future architectural needs. A challenge related to developments in the construction sector is that building techniques will need to adjust to be able to keep up with the speed of demand growth. Needs in the shipbuilding and energy sector will also shift towards steel products with properties to deal with extreme conditions and which yield high strength. Overall, customer needs are rising for more advanced steel products, and the industry will need to develop and produce innovative steel products through continuous research and development.

#### *The circular economy*

56. A main challenge facing the steel industry in the longer term is to mitigate its impact on the environment. The circular economy provides a comprehensive framework to reduce waste and to design products so that they can be reused, remanufactured and recycled. As an infinitely recyclable material, steel is expected to play a crucial role in the circular economy.
57. Stakeholder discussions have shown that the circular economy is impacting all aspects of the steel industry. On the demand side, trends associated with car sharing, the use of public transport, and the sharing of equipment in manufacturing and domestic appliances work to reduce the demand for steel-containing goods. On the production and manufacturing side, the move towards more efficient material use, remanufacturing (refurbishing and repair) and reuse of goods work to reduce steel content and to prolong the lifetime of steel-containing goods. These developments have consequences in terms of reducing and postponing steel demand in some market segments.
58. Stakeholder discussions have also shown that the circular economy is one of several inter-dependent megatrends that are leading to a deceleration in global steel demand growth, and is thus of significant relevance for the steel excess capacity issue. Factors including demographic trends, new drivers of economic development, improved steel products, and consumer preferences and lifestyle changes are combining with circular economy trends to slow steel demand growth over the longer term. Industry stakeholders have informed the GFSEC that, in view of the circular economy and other long-term trends now taking place, the current level of world steelmaking capacity appears to be more than sufficient to meet future market requirements.

#### *Developments in Southeast Asian steel markets*

59. Industry stakeholders have discussed developments in the ASEAN region, given what appears to be a significant and growing steel supply-demand imbalance in the region, with resulting global implications. On the demand side, about half of ASEAN steel consumption, which amounted to approximately 83 mmt in 2018, is currently supplied by imports, with diverging trends depending on product markets. Most of the consumption in the region is driven by the construction sector (around 73%) with construction growth concentrated in economies like Philippines, Indonesia and Vietnam.

On the supply side, a relevant number of new integrated steel mills are starting up in Malaysia, Indonesia, Philippines and Vietnam, and these mills were mostly the result of foreign direct investment from Chinese steelmakers. The combined capacity of these new investments would amount to 61 mmt if all the projects would come on stream, bringing the total capacity in the ASEAN region to 150 mmt from the currently estimated levels of 89 mmt. Considering the historical rate of steel consumption growth in the region of around 4%, it would take approximately 20 years for consumption to catch up with the potentially installed capacity. In a context of already existing overcapacity in the segment of long products, these investments are likely to bring overcapacity in the flat products segment and exacerbate excess capacity globally. These developments are of great concern and warrant the attention of policy makers for their immediate impact on global excess capacity.

#### *Developments in Middle East steel markets*

60. Industry stakeholders from the Middle East, including major steel producers from Saudi Arabia and the United Arab Emirates, engaged with the GFSEC to inform members about the difficult market conditions they are facing and the need to curb a growing steel excess capacity problem in the region. Steel demand in the region – most of which is linked to construction activity - had been in structural decline since 2014, but the Covid-19-related economic downturn has accelerated this contraction significantly in 2020. The increase of steel excess capacity is alarming industry stakeholders, who point to the lack of regulatory mechanisms in the region to help curb this growing problem. In certain segments of the market, such as steel reinforcing bars and sections used in construction, current capacity is approximately two to three times the level of demand, and steel producers are operating at utilisation rates below 50%. Stakeholder discussions have pointed to the lack of private investment and over-reliance on government infrastructure spending as sources of steel demand growth, while also noting the lack of a diversified downstream industrial base to absorb local steel production. In a context of continued capacity expansion in the Middle East, these developments can have significant global impacts and highlight the importance of engaging with industry stakeholders in the relevant regions to better understand the source of excess capacity and ways to mitigate the problem.

## **IV. Steelmaking capacity and policy developments in non-participating G20 jurisdictions**

### ***Steelmaking capacity developments***

61. According to the most recent OECD capacity data based on information until June 2020, capacity developments in China and Saudi Arabia followed different trajectories during the period 2014–2019 (Table 2). In 2019, China's capacity stood at 1 147.5 mmt, down from 1 224.7 mmt in 2014, according to the OECD. This corresponds to a decline of 77.2 mmt during the period, equivalent to 6.3% in relative terms. Steelmaking capacity in Saudi Arabia stood at 11.6 mmt in 2019, compared to a level of 11.2 mmt in 2014, an increase of 0.4 mmt over the period and equivalent to 3.6% of the installed capacity in 2014.

**Table 2. Capacity developments in China and Saudi Arabia**

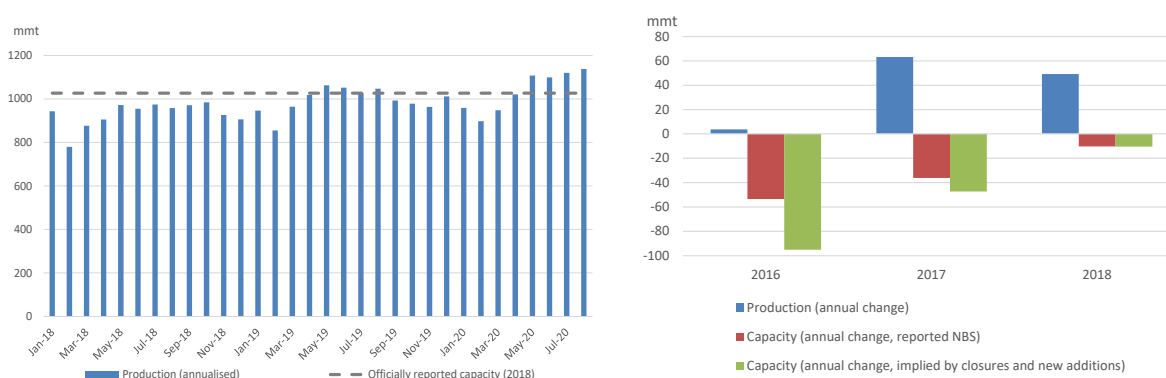
(1000s metric tonnes)

	2014	2015	2016	2017	2018	2019	Change volume (mmt) 2014- 2019	Change (%) 2014-2019
China	1,224,700	1,210,000	1,188,600	1,160,100	1,123,000	1,147,500	-77,200	-6.3%
Saudi Arabia	11,200	11,500	11,600	11,600	11,600	11,600	400	3.6%

Source: OECD, September 2020

62. Monitoring capacity developments in China is of utmost importance given the sheer size of this economy in the global steel market (in the first seven months of 2020, China accounted for 58% of world steel output up from 53% in 2019) and the significant structural excess capacity that still exists in China. While China's capacity reduction efforts in recent years are welcome, there remain discrepancies in the reported trends that require further clarification and analysis. China has stated that it reduced its steelmaking capacity by 150 mmt in 2016-18, as noted in the 2019 Tokyo Chair's Report. However, official aggregate capacity data released by the National Bureau of Statistics (NBS)—also reported by China's when it participated in information sharing as a GFSEC member until 2019—point to a much smaller decline of 100 mmt during that period. Moreover, a comparison of data from other sources suggests further discrepancies in the extent of the Chinese capacity decline. The most recent OECD data as of September 2020, for example, show that Chinese capacity declined by only 87 mmt during 2016-18, before reverting back to growth in 2019, when it increased in net terms by 24.5 mmt to a level of 1 147.5 mmt.
63. There are also significant discrepancies between aggregate levels of capacity, which highlight the importance for the GFSEC to build more transparency on capacity developments in China and to analyse trends with rigour and objectivity. For example, the OECD aggregate data discussed above have exceeded the Chinese officially reported data by 103 mmt per year on average during the 2014-18 period. As noted above, OECD data also indicate a change in the direction towards positive growth in Chinese capacity in 2019 and indications for 2020 are that capacity will stabilise at the 2019 level.
64. There are also other indications that capacity levels in China may be significantly higher than what was officially reported, or that they may have increased since 2018, when the last official data were reported. Production of steel since April 2019 in China has achieved annualised levels that are either very close to or exceed the reported capacity for 2018 (see Figure 6, left-hand graph). Production in the most recent month for which data are available, August 2020, reached an annualised level of 1 138 mmt, a level that surpasses the year-2018 official capacity figure by 10.8%. While seasonal factors can affect monthly production levels, similar comparisons using seasonally adjusted production data yield comparable results. Operating at full levels of capacity or higher especially for an extended period is physically not possible, and points rather to potential errors or miscalculations in the officially reported capacity data. Indeed, even during the strongest of market booms, when steel demand and prices are rising rapidly, it is normal for steel production to reach levels still below nominal capacity.<sup>15</sup> As discussed further below, the dissonance between official capacity and production data prompted the Chinese government to launch an investigation in late 2019 to assess the veracity of its steelmaking enterprises' reporting.

**Figure 6. Steel Production and Capacity in China**



Source: GFSEC ministerial reports for capacity and World Steel Association for production.

65. Looking at the 2016-18 period, it can be observed that Chinese steel production increased each year, doing so by 116.2 mmt (see Figure 6, right-hand graph). At the same time, data on capacity closures and new additions reported by China during its membership of the GFSEC implied a net capacity decline of 152 mmt, while the data submitted by China with respect to its aggregate steelmaking capacity suggested a decline of 102 mmt during this period. While the closure of plants would lead to some shift in production to mills remaining in operation, a rise in overall production of 116.2 mmt (a level of production exceeding annual Indian or Japanese production, the second and third largest producing countries), particularly within a relatively short period of time characterised by weak demand developments, would appear challenging. The shutting down of unauthorised induction furnace capacities that may have also shifted production to mills whose output is then reflected in the official production figures. It is possible that a rebasing of production statistics to a higher level will still be taking place, following the shift away from illegal capacity.
66. There are a number of factors that may explain the discrepancy between capacity data previously reported by China and the higher level of capacity suggested by production statistics.
67. A source of uncertainty associated with capacity developments in China is the treatment of unauthorised induction furnaces (IF) and their contribution into sustaining steel production levels in China over the past two decades. These unauthorised induction furnaces have been defined by the Chinese government since 2002 as *ditiaogang* and have been deemed of sub-quality standard for steel production because of lack of quality inspection equipment. According to the Chinese Ministry of Industry and Information Technology (MIIT) 140 mmt of “*ditiaogang*” capacities were eliminated in 2017. Moreover, the National Development and Reform Commission (NDRC) reportedly carried out nationwide inspections in May and June 2018 to ensure the effective closure of these capacities, including by preventing them from restarting operations and enforcing the elimination of closed IFs.
68. The unauthorised nature of these steelmaking facilities raises a number of uncertainties. First, it is difficult to estimate how much of this capacity has been operating and for how long. Second, while some organisations like the World Steel Association believe that these capacities have been gradually phased out since 2017, it is still unclear whether these capacities are contributing to sustain the current levels of production and the extent to which their production is accounted for by the official production figures. Indeed, part of the 7.8% yearly production increase in 2017 and the 6.5% increase in 2018 were driven by the fact that demand previously served by unauthorised induction furnaces was replaced by the production of mainstream steelmakers.<sup>16</sup> However, the facts that inspections are still carried out by Chinese authorities, and uncertainties around their actual capacity, seems to suggest that unauthorised furnaces may still be operating and contributing to production in China, therefore stretching the rebasing period of the official production statistics.
69. Third, there are some uncertainties regarding the effectiveness and accuracy of the capacity replacement scheme in China. In 2015, China introduced a capacity swap scheme allowing domestic steelmakers to replace old capacity with larger or more efficient facilities. The scheme aimed to upgrade the Chinese steel industry without increasing the country’s total capacity: producers could replace facilities as long as they reduced their total capacity by up to 20%. However, there are some indications that some steelmakers may have used loopholes in the scheme to aggressively expand capacity. For this reason, in January 2020, China’s NDRC announced it would stop approving new capacity and capacity swap projects, to review all capacity swap projects that are operating, under construction or in the planning phase (see Box 4 for further details). The uncertainties regarding the capacity figures associated with the swap schemes also weigh on the difficulties in obtaining a clear picture of capacity developments in China.

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<sup>16</sup> The World Steel Association notes the following: “China closed most of its outdated induction furnaces in 2017, a category which was generally not captured in official statistics. With closure of the induction furnaces, the demand from this sector of the market is now satisfied by mainstream steel makers and therefore captured in the official statistics in 2017” (World Steel Association Short Range Outlook, April 2018).

70. Fourth and finally, in November 2019, numerous press sources both within and outside China reported that the NBS, MIIT, and the NDRC had launched an investigation to verify the true capacity of enterprises operating across China's steel sector (see Box 4). According to these reports, the investigation was prompted by alarm within the NBS, MIIT, and NDRC that reported utilization rates at some Chinese steelmaking enterprises were higher than 100% in January-September 2019 (and in some cases as high as 150%) suggesting wide-scale inaccuracies in the reporting of official capacity data.

#### Box 4. Recent policy documents issued by the Chinese government

- On 6 August 2019, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the National Energy Administration issued the *"Notice on the Implementation of Supervision and Inspection on Eliminating Outdated Capacity and Resolving Excess Capacity"*, MIIT (2019) No. 143. According to the Notice, the supervision and inspection focuses on the following issues: the implementation of capacity replacement for steel, coal, cement, flat glass and electrolytic aluminum projects constructed or confirmed since 2016, particularly the capacity replacement plans, project filing documents, dismantling the replaced capacity (equipment) as scheduled, and the progress of the corresponding construction project; elimination of outdated capacity in accordance with laws, regulations and standards in 2018 such as energy consumption, environmental protection, quality, safety, and technology; the formulation of work plan for eliminating outdated capacity in 2019; the implementation of relevant policies such as de-capacity, the replacement of the staff of the eliminated outdated capacity, and differentiated prices since 2018; the establishment and improvement of the reporting and response mechanism for de-capacity and elimination of outdated capacity; and punishment based on the reporting system since 2018.
- On 4 November 2019, the National Development and Reform Commission (NDRC), the Ministry of Industry and Information Technology, the National Bureau of Statistics issued the *"Notice on the Investigation and Verification of Production Capacity and Output of the Iron and Steel Industry"*, NDRC (2019) No. [1028]. The notice provides for joint verifications of crude steelmaking capacity, production and fixed asset investment in order to consolidate the results achieved by the reduction of steel excess capacity and provide rationale for decision-making.
- On 23 January 2020, the National Development and Reform Commission (NDRC) and the Ministry of Industry and Information Technology issued the *"Notice on Improvement of Steel Capacity Replacement and Project Filing Work"*, NDRC Message [2020] No. 19 and the interpretation of the *"Notice on Improvement of Steel Capacity Replacement and Project Filing Work"* was issued by the NDRC's Department of Industry. The documents provide for suspending the steel capacity replacement and project filing; carrying out self-inspection of the existing steel capacity replacement projects; developing and issuing relevant policy documents (formulate guidelines for the filing of steel projects, amend the measures for steel capacity replacement); and enhancing implementation and supervision.

71. The consequences of the above analysis are that excess capacity in China may be considerably higher than previously expected. Much of the excess capacity is structural in nature, caused by the prevalence of market-distorting government support measures that are not in line with paragraph 57 of the Berlin Ministerial report as raised in the previous GFSEC Ministerial and Chair's reports. As reported by members through recent information exchange rounds, this has been exacerbated by various support measures that promote a shift in capacity overseas.

72. The consequences of China's overcapacity situation are visible in the serious over-supply that it creates in domestic and international markets, which can be highly disruptive and detrimental to steel industries and their workers across the globe. The production response during the Covid-19 crisis—with China being virtually the only economy to increase production to date while output levels in the rest of the world have plummeted—creates a particular concern that developments in China could exacerbate market imbalances and have a detrimental impact on recovery of steel industries in GFSEC member jurisdictions. This increase in Chinese crude steel production to record high volumes coincides with data that suggests crude steelmaking capacity in China began to increase again in 2019 and data that suggests long-term steel demand in China has reached a plateau. These developments are emblematic of the lack of market function that needs to be addressed.

### *Capacity developments in ASEAN*

73. Crude steelmaking capacity has expanded rapidly in the Association of South East Asian Nations (ASEAN) region over the past decade and is expected to continue increasing over the next three-year period mostly driven by foreign direct investment. Steelmaking capacity in ASEAN rose from 42.3 mmt in 2010 to 71.9 mmt in 2019, according to the OECD. A number of projects in the region suggest that capacity will continue to grow in the near term.
74. OECD analysis indicates that a number of greenfield steelmaking projects have been approved and are expected to come on stream in the region. In the Philippines, two new EAF plants totalling 1.3 mmt are expected to become operational by 2022, while at the same time in Vietnam new BOF capacity totalling 4 mmt is also expected to become operational by 2020. A number of investment projects in IF technology are also starting up in the region although information about these projects is scarce in ASEAN-6 economies. Reports have suggested that these facilities are being built from repurposed equipment exported from China following the Chinese government's campaign to eliminate domestic IF production.<sup>17</sup>
75. The ASEAN and South Asian regions are an important target destination for foreign direct investment by Chinese firms. For instance, in Indonesia, Dexin Steel Indonesia, a joint venture between two Chinese firms and a local industrial park is proceeding with construction of a new 3.5 mmt BOF steel mill. Moreover, a new EAF plant with 0.5 mmt of capacity was commissioned as part of a joint venture between a Chinese and an Indonesian steelmaker. An important Chinese steelmaker has plans to develop a new steel mill in Indonesia, with steelmaking capacity of 7.5 mmt.
76. In the Philippines, a joint venture between the second largest Chinese steelmaker and a number of local investment funds started the construction of a new steel plant in with steelmaking capacity eventually reaching 8.0 mmt. In Malaysia, two large new integrated steel plants are in the pipeline, for a total capacity of 11.5 mmt. Chinese firms are on the lead of both investment projects. In Myanmar, an agreement between a Chinese firm and the local steel association is been signed to build a new 4.0 mmt steelmaking plant. These projects illustrate the widespread presence of foreign direct investment in the region supported by China, in striking contrast with the need of limiting capacity expansion in the context of aggravating excess capacity.
77. The impact of these investments in the ASEAN region was among the issues discussed during the GFSEC's stakeholder event in July 2020. A representative of the Southeast Asian Iron and Steel Association noted that, of 15 new integrated carbon steelmaking facility projects or currently underway in the ASEAN region, 12 are funded by foreign investment with 10 by investors from China. Several new stainless steel investments in the region have also been recently made by Chinese companies. Chinese recent policies, at the central and sub-central government levels, to reduce domestic steelmaking capacity and to promote investment abroad, and the growing steel demand in the ASEAN region may be factors driving these investments. In a situation in which steelmaking capacity in the ASEAN region already exceeds current consumption, capacity additions fuelled by foreign investment

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<sup>17</sup> See <https://www.reuters.com/article/us-steel-asia-china-analysis/chinas-outcast-steel-machines-find-unwelcome-home-in-southeast-asia-idUSKBN1OG06E>.

risk creating 80 million tonnes of excess regional capacity, if all currently planned and underway projects are completed. Such a development would both threaten the sustainability of the steel industry in the ASEAN region, but also exacerbate the global steel supply-demand imbalance.

### *Capacity developments in the Middle East*

78. Steelmaking capacity has increased rapidly over the past decade in the Middle East, from 38.5 mmt in 2010 to 78 mmt in 2019 (+103%). For Saudi Arabia, the increase was from 6.7 mmt to 11.6 mmt in the same period, according to OECD data. Rapid growth is expected to continue over the next few years mainly due to capacity expansions in Iran. Steelmaking capacity could increase by an additional 8.9 mmt (+9.5%) by 2023 compared with the level of 2020 if all the projects that are underway come on stream and in the absence of closures. Including projects in the planning the stages, the capacity increase would be higher at 14.5%.
79. Assuming that all projects that are currently underway are completed as scheduled, Iran's nominal crude steelmaking capacity would reach 68.5 mmt by 2023. This would bring Iran into the ranks of the largest steelmaking countries in the world.

### **Government policies and measures**

80. The GFSEC review process plays an important role in identifying support measures that distort markets and contribute to excess capacity. This is particularly the case with respect to subsidies provided to companies with the purpose of developing or expanding net capacity, or to firms experiencing persistent financial difficulties preventing them from exiting the market.
81. Over the course of the GFSEC's previous work, members have identified a large number of subsidies and other support measures provided by the Chinese government to its steel producers. Members have also concluded that several of these measures are market-distorting and contribute to excess capacity, and thus fall under paragraph 57 of the Berlin Ministerial report (i.e., measures that government should remove and refrain from), while China stated its view that this was not the case.<sup>18</sup> For example, members discussed instances of preferential financing and debt relief having been provided to loss-making steel companies, allowing them to maintain operations. Members have also noted instances of lending by Chinese state-owned banks to indebted steel companies, and equity infusions into non-financially viable steelmaking companies in the form of mandated debt-to-equity swaps.
82. GFSEC members have also discussed extensive evidence of government grants and awards to Chinese steel producers, evidenced by information contained in the annual reports of the Chinese steel companies. Members have also discussed large lump sum payments by local governments in China to "Special Treatment" enterprises, and whether financial support by local governments provided for environmental purposes might prevent enterprises from reducing capacity or being shut down in the absence of such support.
83. Members also discussed numerous preferential tax programs available to Chinese steelmaking companies, as well as the preferential provision of steelmaking raw materials, electricity and land-use rights at discounted prices or for free to steel companies in China. Members also discussed how the specific combination of export quotas, duties, licensing requirements, taxes and VAT rebate reductions in China artificially separate the Chinese market from the international market, and provide support by artificially depressing certain input prices, while encouraging finished steel exports.
84. During 2020, GFSEC discussions of Chinese policy measures have focused on specific issues that threaten to exacerbate the negative impacts of the Covid-19 pandemic on the global steel supply-demand imbalance. In particular, members have noted with concern that China may be seeking to

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<sup>18</sup> Chair's Report, GFSEC Ministerial Meeting, Tokyo, October 2019, paragraph 47 and Annex 2 (available at [https://www.meti.go.jp/english/press/2019/pdf/191026\\_001-2.pdf](https://www.meti.go.jp/english/press/2019/pdf/191026_001-2.pdf)).

stimulate the recovery of its economy by encouraging exports of products including steel. Members noted that, in March 2020, China's Ministry of Finance announced an increase of the VAT rebate to 13% on exports of more than 120 carbon, alloy and stainless steel products. As a result, the sellers of these steel products will obtain a full VAT refund if they elect to sell the steel in foreign markets. In the context of accumulated steel inventories in China, the GFSEC has raised concerns that such an initiative provides an incentive for Chinese steel companies to sell their stocks in the global market.

85. GFSEC discussions in 2020 have also centred on examples of distortive discretionary policy measures or the non-application of market policy measures in China. GFSEC members have pointed out specific examples of support to bankrupt companies, which were identified as falling under paragraph 57 of the Berlin Ministerial report.
86. Finally, members continued to discuss Chinese government measures that appear to call for or provide financial or other support to Chinese enterprises seeking to establish new steelmaking capacities in overseas markets. Members noted that in March 2020, China's Ministry of Commerce and the Office of the Export-Import Bank of China jointly issued a notice of new financial support in response to the Covid-19 pandemic, which among other issues, directs China's provinces and relevant branches of China's Export-Import Bank to increase credit support to key policy areas, including the "Support [of] enterprises in border (cross-border) economic cooperation zones to carry out overseas investment in line with direction of overseas investment." Members noted that this is the latest in a series of directives providing for state support for overseas investment by Chinese enterprises particularly in the steel sector. Box 5 lists China's other policy measures related to outward investment support that have been discussed by GFSEC members.
87. GFSEC members noted that the confluence of Chinese government measures encouraging overseas investment by its steelmaking enterprises, explicit reference in these measures to the provision of government support for such investment and the growing incidence of overseas investment in crude steel capacity projects by Chinese enterprises gives rise to a significant concern that China's government measures are contributing to an increase in steel production capacity outside China. As noted above, overseas investment by Chinese steelmakers is causing concern among the industries of the jurisdictions in which these investments are being made. These investments also threaten to nullify the impact of capacity reductions that were undertaken by enterprises within China during the 2016-2018 period. At a time of large, persistent, and—as a result of the Covid-19 pandemic—growing excess capacity in the global steel sector, continued governmental support for overseas expansion by steelmakers is a cause for significant concern.
88. Outward investment support measures by China remained under ongoing discussion in 2019 as noted in the Tokyo Chair's report. The evidence at hand and the balance of collective discussions in 2020 suggests that these measures would fall under paragraph 57 of the Berlin Ministerial report.

### Box 5. China's policy measures related to support of outward investments

*13th Five-Year Plan (2016-2020)*, Part XI, Chapter 49, Section 2 – “Encourage more of China’s equipment, technology, standards, and services to go global by engaging in international cooperation on production capacity and equipment manufacturing through overseas investment, project contracting, technology cooperation, equipment exporting, and other means, with a focus on industries such as steel...”. “Improve services such as taxation, finance, insurance, investment and financing platforms, and risk assessment to support efforts in this regard.”

*State Council Opinion on the Steel Industry to Resolve Excess Capacity to Achieve Development* (Guo Fa [2016] No. 6), Section 5 (Resolving Excess Capacity) – “Improve incentive policies and encourage enterprises to withdraw some steel production capacity through active reduction, mergers and acquisitions, relocation and transformation, and international capacity cooperation.” “Encourage qualified enterprises to combine the “Belt and Road” construction and transfer part of the production capacity through international capacity cooperation...”.

*State Council Guiding Opinion on Promoting International Cooperation in Production Capacity and Equipment Manufacturing* (Guo Fa [2015] No. 30), Section III (Main Tasks) – “Build upon domestic advantages to promote international cooperation in production capacity in the steel and nonferrous metal industry. In combination with the structural adjustment in the domestic steel industry, build iron smelting, steel smelting, steel materials and other steel production bases in key countries with good resource conditions, strong supporting capability and good market potential through complete set equipment exports, investment, acquisition, contracting projects, etc. to bring about the export of iron and steel equipment.”

Section VI of the Guiding Opinion (Intensify Policy Support) further provides – “Give full play to the role of preferential loans. Support enterprises to participate in the export of large-scale complete equipment sets, construction project contracts and large-scale investment projects based in the needs in the international cooperation in production capacity and equipment manufacturing.” “Give full play to the positive role of policy-based banks and developmental financial institutions, and increase the magnitude of financial support for international cooperation in production capacity and equipment manufacturing through syndicated loans, export credit, project financing and other means.”

*Opinions of the People's Bank of China, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission on Supporting the Steel and Coal Industries in Resolving Superfluous Production Capacity* (No. 118 [2016] of the People's Bank of China), Section V (Supporting the exports of steel and coal, and urging steel and coal enterprises to “go out” in a faster pace) – “Policy and development financial institutions shall, within their respective business scope, increase financial support for the international production, capacity cooperation of qualified steel and coal enterprises through syndicated loans, export credits, project financing, etc. Commercial banks shall provide financing support to steel and coal enterprises so as to transfer their production capacity to overseas...” “The Silk Road Fund and other investment and financing platforms shall be fully utilised to support domestic steel and coal enterprises in carrying out international production capacity cooperation with enterprises in the countries along the “Belt and Road” and the key production capacity cooperation countries.” “Steel and coal enterprises shall be supported in utilising the export credit insurance and overseas investment insurance to enhance their international operation capacity.”

*Source:* GFSEC members’ submissions concerning capacity issues and support measures in non-GFSEC member jurisdictions

## V. GFSEC recommendations, commitments and next steps

89. As steelmakers around the world are facing the challenges of excess capacity and are coping with the consequences of the Covid-19 pandemic, swift actions and multilateral cooperation on the excess capacity issue are vital. In this context, it is important that all relevant actors, including India, participate in the GFSEC process, continue to cooperate constructively and contribute to a greater transparency about capacity and policy developments. In view of the risk of deterioration of the excess capacity situation, the GFSEC Berlin principles and policy recommendations are more important than ever. These guiding principles and recommendations are the route to follow and should be urgently put into action by all G20 and interested OECD economies.

### *GFSEC commitments and next steps towards the sustainable development of the steel industry*

90. The mission of this Forum under its Terms of Reference is to enhance communication, information sharing, and cooperation among members, and to take effective steps to address the challenges of steel excess capacity. Ministers representing Forum member economies have met each year of the Forum's existence to review and advance the work of the Forum, in line with the instruction in G20 Leaders' declarations in Hangzhou, Hamburg, Buenos Aires and Osaka. The reports adopted by ministers in Berlin in 2017 and in Paris in 2018, and the report issued by the Forum's chair in 2019, describe the working methods, principles, policy recommendations, and individual commitments of the Forum and its members. The work of the Forum in 2020 has proceeded following the agreed principles and working methods.
91. The work of this Forum has never been so relevant. Despite some important achievements, developments in some non-participating jurisdictions, together with the impacts of the global crisis caused by the Covid-19 pandemic, have widened the gap between capacity and demand. As a result of these developments, the modest progress in decreasing global excess capacity between 2016 and 2019 is now reversing and excess capacity is expected to increase significantly in 2020, thus exacerbating the distortions and imbalances that have plagued the steel sector in many economies for the last decade.
92. The Covid-19 pandemic that emerged in early 2020 has led the world economy into its worst downturn in decades. The crisis is also leading to the steepest decline in steel demand since the global financial crisis of 2008-09, and the recovery could potentially take longer compared to the 2008-09 downturn. In the context of these challenging market conditions, the principles and policy recommendations of the GFSEC have even greater importance. Ensuring that steel markets function free of distortive government interventions that contribute to excess capacity, and that investment decisions are taken according to market forces, remain critically important to adjustment in the global steel sector. Measures designed to tackle the Covid-19 crisis should not distort markets and should be in line with the policy principles agreed at the previous GFSEC Ministerial meetings, and be consistent with multilateral rules.
93. For their part, GFSEC members reiterate their common commitment to uphold the six principles agreed at the Berlin Ministerial Report and agree to maintain their individual commitments made on a voluntary basis. Resolving global excess capacity will only be achievable, if governments in all the world's major steel-producing economies are equally committed to the task. Adherence to the GFSEC's principles and policy recommendations, and participation in the GFSEC's transparency and information sharing mechanisms are important expressions of this commitment. In this respect, members regret the decision by the People's Republic of China and Saudi Arabia to discontinue their membership of the Forum as of 2019 and look forward to the resumption of India's participation in 2021. The excess capacity affecting the steel sector is a genuine global issue, which requires a multilateral engagement by all G-20 countries.
94. Recalling the mandate from the G20 Leaders' Declarations, the GFSEC reaffirms that global excess capacity must be eliminated and its re-emergence avoided. Members look forward to furthering the GFSEC's work beyond December 2020, following the Berlin and Paris Ministerial Reports, the Tokyo Chair's report and the present Ministerial Report.

95. To this end members agree:

- To continue the work of the GFSEC and to submit in 2021 updated information on policy measures and on steelmaking capacity developments through the existing questionnaire as the basis for transparent review, analysis and discussion among members. Meetings will take place in the spring and fall of 2021. Information on capacity developments, support measures and other policies will be shared one month before both meetings.
- To continue to monitor steelmaking capacity, production, and policy developments in the global steel sector, including in non-member jurisdictions. Members reaffirm their call in the Paris ministerial report for an acceleration in the reduction of excess capacity, in particular through further reduction of capacity in jurisdictions characterized by large and persistent capacity-demand gaps.
- To fully carry out the Berlin Ministerial recommendations. In this regard, members recognize the need to further enhance the role of the GFSEC as an important platform to exchange knowledge and experiences related to addressing steel excess capacity for the sustainable development of the steel sector.
- To continue to host collaborative events in 2021 in conjunction with GFSEC meetings with input and participation from a broad range of steel sector representatives and international associations, to deepen exchange on the Berlin Ministerial recommendations, in various areas.
- To reflect the outcomes of GFSEC work in the G20 and other relevant fora.

Members reiterate their standing invitation to all G20 and interested OECD members to participate in the work of the Forum.

List of Annexes:

Annex 1. The results of the GFSEC information sharing and review process in 2020

Annex 2. Details of the review process

Annex 3. Extracts from G20 Communiqués (G20 Leaders (Osaka), G20 Leaders (Buenos Aires), G20 Leaders (Hamburg), G20 Leaders (Hangzhou), G20 Trade Ministers (Shanghai), G20 Finance Ministers (Chengdu))

Annex 4. Terms of Reference of the GFSEC

## Annex 1. The results of the GFSEC information sharing and review

1. The GFSEC completed two rounds of information sharing and review between mid-December 2019 and August 2020. During this process, GFSEC members shared new capacity and policy information available for 2020, including insights into the impact of the Covid-19 crisis on their steel production facilities. Members also updated the capacity and policy information they had submitted for earlier years. As before, the information sharing was conducted by completing and updating three parts of the GFSEC questionnaire that forms the basis of this exercise: Part 1 on nominal steelmaking capacity developments, Part 2 that covers government policies, measures and practices which potentially influence crude steel capacity and market developments, and Part 3 that addresses the Berlin policy recommendations. In addition, in the second round of information sharing for 2020, members were invited to provide information on production disruptions resulting from the Covid-19 pandemic, as a component of their updated responses to Part 1 of the questionnaire.
2. Detailed information on the data and measures exchanged between members during the two rounds of information sharing that took place in 2020, including plant-level capacity data and information on specific measures, is available to GFSEC members through the GFSEC's members' portal. This Annex provides only a high-level summary of this information. It also provides a high-level summary of the review process, i.e. the exchanges that members had regarding the subsidies and other types of support provided by government and government-related entities between mid-February and August 2020. Members of the GFSEC are invited to consult the detailed information available to them through the members' portal.
3. The first section of the summary examines capacity developments in GFSEC economies, and highlights trends at the aggregate level. The second section provides an overview of the updates made by members in Part 2 of the questionnaire. It is followed by an overview of the information reported by GFSEC members in Part 3 of the questionnaire in the following policy areas: i) framework conditions; ii) market distorting subsidies and other support measures; iii) fostering a level-playing field in the steel sector; iv) fostering industry restructuring by assisting displaced workers; v) government targets; vi) issues related to mergers and acquisitions; and vii) officially supported export credits for goods and services associated with crude steelmaking projects. The last section provides an overview of the discussions between GFSEC members in the context of the new rounds of the GFSEC review process with respect to subsidies and other types of support by government and government-related entities.

### 1. Steelmaking capacity developments

4. Under Part 1 of the information sharing exercise, GFSEC members shared information on existing capacities, new additions and closures of capacity from 2014 to the latest completed year of the Forum (2019) at the aggregate and at the disaggregated level. Part 1 of the questionnaire also asks for details about the number of plants that make up the aggregate capacity figures, and a breakdown of aggregate capacity by production process. Members who wished to do so were also asked to provide information on the idling of steelmaking facilities in their economy following the outbreak of the Covid-19 pandemic. In addition, members have also agreed to share details on steelmaking capacity at the disaggregated level (up to the level of individual plants) with other members that provide the same level of information. The disaggregated data provide rich information on existing crude steelmaking plants and sites, as well as new capacity additions and closures by plants across economies.
5. During the two rounds of information sharing that took place in 2020, 30 members of the GFSEC (all members other than India) shared data on aggregate capacity,

additions and closures for 2019, as well as disaggregated (plant or site level) data for 2019. These members also updated their capacity data for 2014-18 wherever necessary. The summary below refers to the information exchanged amongst these 30 members.

### 1.1. Existing capacity

6. The 30 members of the GFSEC that participated in the information sharing exercise in 2020 accounted for 34% of the world's total steelmaking capacity and 64% of global capacity outside of China, the world's largest steel-producing economy, in 2019. The total capacity of the 30 members amounted to 814.6 mmt in 2019, representing a decrease of 5.6 mmt from the level of 2018 (Table 1).
7. With steelmaking capacity of 203.1 mmt in 2019, the European Union accounted for the largest share of the combined capacity of the GFSEC in the year 2019 (24.9%), followed by Japan (16.1%), the United States (14.6%), the Russian Federation (10.6%), Korea (9.8%), Brazil (6.3%), Turkey (6.1%) and Mexico (3.6%).
8. The 30 members that exchanged information in the two rounds of information sharing in 2020, reported capacity changes as follows. Increases in capacity reported for 2019 occurred in the Russian Federation (1.5 mmt) and Japan (0.15 mmt). In contrast, declines in capacity in 2019 compared to 2018 were reported by the European Union (2.5 mmt), Turkey (2.4 mmt), Korea (1.8 mmt), Mexico (0.35 mmt) and the United States (0.25 mmt). Of the EU Member States participating in the GFSEC, France decreased its capacity by 2.5 mmt while the remaining members did not experience any change in capacity in 2019 relative to 2018.
9. Comparing capacity levels in 2019 with those in 2014, large capacity volume decreases were reported by the European Union, where capacity decreased by 11.9 mmt during the 2014-19 period. Within the European Union, the largest capacity decreases occurred in France (3.1 mmt), Italy (2.2 mmt), Spain (1.5 mmt), Luxembourg (0.9 mmt), Germany (0.8 mmt), the Slovak Republic (0.7 mmt), Hungary (0.6 mmt), and the Netherlands (0.4 mmt), whereas capacity increases occurred in Poland (0.5 mmt) and Belgium (0.3 mmt).
10. Elsewhere, Japan also reported steelmaking capacity decreases during the 2014-19 period (by 5.0 mmt), as did the the United Kingdom (by 3.9 mmt), the United States (by 1.8 mmt), Korea (by 1.3 mmt), Turkey (by 0.7 mmt) and South Africa (by 0.3 mmt).
11. Capacity increases over the 2014-19 period were registered by Brazil (4.0 mmt), Mexico (2.6 mmt), Indonesia (2.0 mmt), Russia (2.1 mmt), Argentina (0.8 mmt), and Canada (0.1 mmt).

**Table 1. Crude steelmaking capacity in participating GFSEC member economies: 2014-2019**

(1000s metric tonnes)

By GFSEC member	2014	2015	2016	2017	2018	2019	Change (volume) 2014-2019	Change (%) 2014-2019	Change (2014-2019) relative to total GFSEC capacity in 2014
European Union, of which*:	214,996	211,496	207,614	206,059	205,634	203,134	-11,862	-5.5%	-1.26%
Germany	50,881	50,881	50,081	49,921	50,041	50,041	-840	-1.7%	-0.09%
Italy	38,606	36,206	36,206	36,456	36,456	36,456	-2,150	-5.6%	-0.23%
France	22,021	22,021	21,941	21,466	21,466	18,966	-3,055	-13.9%	-0.33%
Spain	20,310	20,310	19,610	18,860	18,860	18,860	-1,450	-7.1%	-0.15%
Poland	12,260	12,260	12,260	12,560	12,710	12,710	450	3.7%	0.05%
Belgium	8,620	8,620	8,900	8,900	8,900	8,900	280	3.2%	0.03%
Austria	8,595	8,595	8,595	8,595	8,595	8,595	0	0.0%	0.00%
Netherlands	7,260	7,260	7,000	7,000	6,813	6,813	-447	-6.2%	-0.05%
Sweden	5,950	5,950	5,950	5,950	5,950	5,950	0	0.0%	0.00%
Slovak Republic	5,520	5,520	5,520	4,860	4,860	4,860	-660	-12.0%	-0.07%
Greece	4,760	4,760	4,760	4,760	4,760	4,760	0	0.0%	0.00%
Finland	4,530	4,530	4,530	4,530	4,530	4,530	0	0.0%	0.00%
Luxembourg	3,322	3,322	2,400	2,400	2,400	2,400	-922	-27.8%	-0.10%
Hungary	2,650	2,650	2,050	2,050	2,050	2,050	-600	-22.6%	-0.06%
Japan	136,268	135,631	134,447	132,411	131,055	131,205	-5,063	-3.7%	-0.54%
United States	121,345	118,720	120,170	120,170	119,730	119,480	-1,865	-1.5%	-0.20%
Russian Federation	84,755	84,755	85,755	85,855	85,395	86,897	2,142	2.5%	0.23%
Korea	79,675	80,275	80,775	80,775	80,175	78,345	-1,330	-1.7%	-0.16%
Brazil	47,410	47,960	51,450	51,450	51,450	51,450	4,040	8.5%	0.43%
Turkey	50,213	50,439	51,506	51,181	51,884	49,498	-715	-1.4%	-0.08%
Mexico	26,555	29,105	29,505	29,505	29,505	29,155	2,600	9.8%	0.28%
Canada	17,342	17,467	17,467	17,467	17,467	17,467	125	0.7%	0.01%
Indonesia	9,941	10,031	10,681	10,681	11,905	11,905	1,964	19.8%	0.21%
United Kingdom	15,097	11,197	11,202	11,202	11,202	11,202	-3,895	-25.8%	-0.42%
South Africa	10,110	9,230	9,410	9,626	9,786	9,930	-180	-1.8%	-0.03%
Argentina	6,532	6,650	6,650	7,300	7,300	7,300	768	11.8%	0.08%
Australia	5,570	5,570	5,570	5,570	5,570	5,570	0	0.0%	0.0%
Switzerland	1,370	1,370	1,370	1,370	1,370	1,370	0	0.0%	0.0%
Norway	800	800	800	800	800	800	0	0.0%	0.0%
<b>GFSEC total (participating members)**</b>	<b>827,979</b>	<b>820,696</b>	<b>824,372</b>	<b>821,422</b>	<b>820,228</b>	<b>814,564</b>	<b>-13,415</b>	<b>-1.6%</b>	<b>-1.6%</b>

Note: \* The European Union's figure refers to the total capacity of all the European Union Member States.

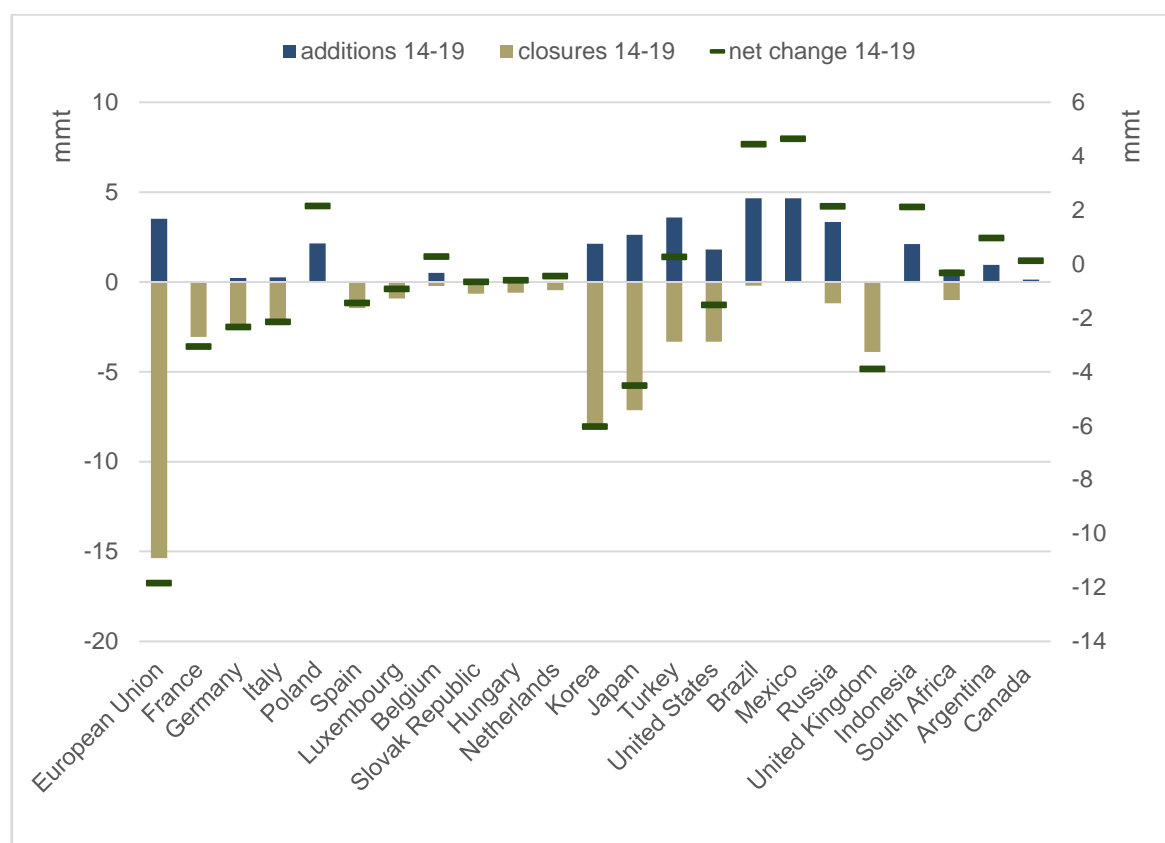
GFSEC members are listed by the size of their capacity in 2019. \*\* India is not included in the total shown here in view of its non-participation in 2020.

12. Over the examined period (2014-2019) the overwhelming majority of GFSEC members (23) witnessed changes in their installed capacity base. Figure 1 presents the churning of capacity, which sums up additions and closures of capacity observed in GFSEC member economies. Churning of capacity is an indicator of business dynamism in the sector which normally capture how well market functions in that efficient firms grow and less efficient firms shrink. In absolute terms, the changes in volumes were particularly pronounced the European Union (18.8 mmt), Korea (10.2

mmt), Japan (9.8 mmt), Turkey (6.9 mmt) and the United States (5.1 mmt) between 2014 and 2019 (Figure 1).

**Figure 1. Capacity additions, closures and net changes in capacity (mmt)**

This figure refers to 2014-2019 for the 30 participating GFSEC members



Note: Net changes in capacity in the figure refer to the 2013-2019 period and differ from those reported in Table 1 they reflect the differences between additions and closures between 2014 and 2019 rather than the difference in capacity levels between 2014 and 2019.

Source: GFSEC information sharing results as of 1 September 2020.

## 1.2. New additions

13. For 2019, new capacity additions were reported by Russia (1.5 mmt), Turkey (0.3) and Japan (0.2 mmt). Among the 30 members that exchanged information in the two rounds of information sharing in 2020, new additions of crude steel capacity totalled 30.2 mmt between 2014 and 2019. Between 2014 and 2019, additions were registered in Brazil (4.7 mmt), Mexico (4.7 mmt), Turkey (3.6 mmt), the European Union (3.5 mmt), Russia (3.3 mmt), Japan (2.6 mmt) as well as Korea and Indonesia (2.1. mmt), with several other GFSEC members reporting total additions below 2 mmt.
14. Overall, the data shared in 2020 indicate that the pace of new capacity additions seems to have slowed for the GFSEC as a whole recently, with only three economies registering additions in 2019, totalling 2 mmt.

**Table 2. New capacity additions in participating GFSEC member economies 2014-2019**

(1000s metric tonnes)

<b>Economies with new additions</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>total</b>
Brazil	400	550	3,700	0	0	0	4,650
Mexico	1,700	2,550	400	0	0	0	4,650
Turkey	974	298	1,242	83	703	288	3,588
European Union, of which*:	1,700	0	505	650	662	0	3,517
Poland	1,700	0	0	300	150	0	2,150
Belgium	0	0	500	0	0	0	500
Germany	0	0	0	100	120	0	220
Italy	0	0	0	250	0	0	250
Japan	850	564	0	1,058	0	150	2,622
Indonesia	150	90	650	0	1,224	0	2,114
Korea	0	1,420	700	0	0	0	2,120
Russia	0	0	1000	100	700	1532	3,332
United States	0	0	1,450	0	360	0	1,810
Argentina	192	118	0	650	0	0	960
South Africa	0	120	180	0	160	144	604
Canada	125	0	0	0	0	0	125
United Kingdom	0	0	5	0	0	0	5
<b>GFSEC total **</b>	<b>6,091</b>	<b>5,710</b>	<b>9,832</b>	<b>2,541</b>	<b>3,809</b>	<b>2,114</b>	<b>30,097</b>

Note: \* The European Union's figure includes all the European Union Member States. \*\* India is not included in the total shown here in view of its non-participation in 2020.

### 1.3. Capacity closures

15. In 2019 capacity closures took place in Turkey (2.7 mmt), in the European Union (2.5 mmt), in Russia (2.3 mmt) in Korea (1.8 mmt) and in the United States (0.3 mmt).
16. Between 2014 and 2019, a total of 43.6 mmt of capacity were closed in GFSEC member economies.
17. Between 2014 and 2019 closures of capacity took place in the European Union (15.4 mmt), Korea (8.2 mmt) Japan (7.1 mmt), the United Kingdom (3.9 mmt), Turkey and the United States (3.3 mmt), Russia (2.4 mmt), South Africa (1.0 mmt) and Brazil (0.2 mmt).

**Table 3. Capacity closures in GFSEC member economies 2014- 2019**

(1000s metric tonnes)

<b>Economies with closures</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>total</b>
European Union, of which*:	1,685	3,500	4,382	2,205	1,187	2,500	15,359
France	0	0	80	475	0	2,500	3,055
Germany	1500	0	800	260	0	0	2,560
Italy	0	2400	0	0	0	0	2,400
Spain	0	0	700	750	0	0	1,450
Luxembourg	0	0	922	0	0	0	922
Slovak Republic	0	0	0	660	0	0	660
Hungary	0	0	600	0	0	0	600
Netherlands	0	0	260	0	187	0	447
Belgium	0	0	220	0	0	0	220
Japan	296	1,201	1,184	3,094	1,356	0	7,131
Korea	4,700	820	200	0	600	1830	8,150
United Kingdom	0	3,900	0	0	0	0	3,900
Turkey	0	72	175	408	0	2,674	3,329
United States	0	2,625	0	0	450	250	3,325
Russia	0	0	0	0	1,161	30	1,191
South Africa	0	1,000	0	0	0	0	1,000
Brazil	0	0	210	0	0	0	210
<b>GFSEC total**</b>	<b>6,681</b>	<b>13,118</b>	<b>6,151</b>	<b>5,707</b>	<b>4,654</b>	<b>7,284</b>	<b>43,595</b>

Note: \* The European Union's figure includes all the European Union Member States. \*\* India is not included in the total shown here in view of its non-participation in 2020.

### 1.4. Impact of COVID-19 on steelmaking facilities in GFSEC economies

18. Through the second round of information sharing in 2020 members were invited to provide as much information as they could about the impacts related to the COVID-19 pandemic on the operations of the steelmaking facilities in their economies, both at the aggregate industry-wide level and at the disaggregated level for each company, site or plant.
19. To gather this information, the associated questions pertained to the implementation of economy-wide lockdown measures and their applicability to the steel sector and their impact on the idling of steelmaking facilities. Beyond the impact of lockdown measures on the operation of steelmaking facilities, members were also invited to provide information on the plant idling that resulted from deteriorating market

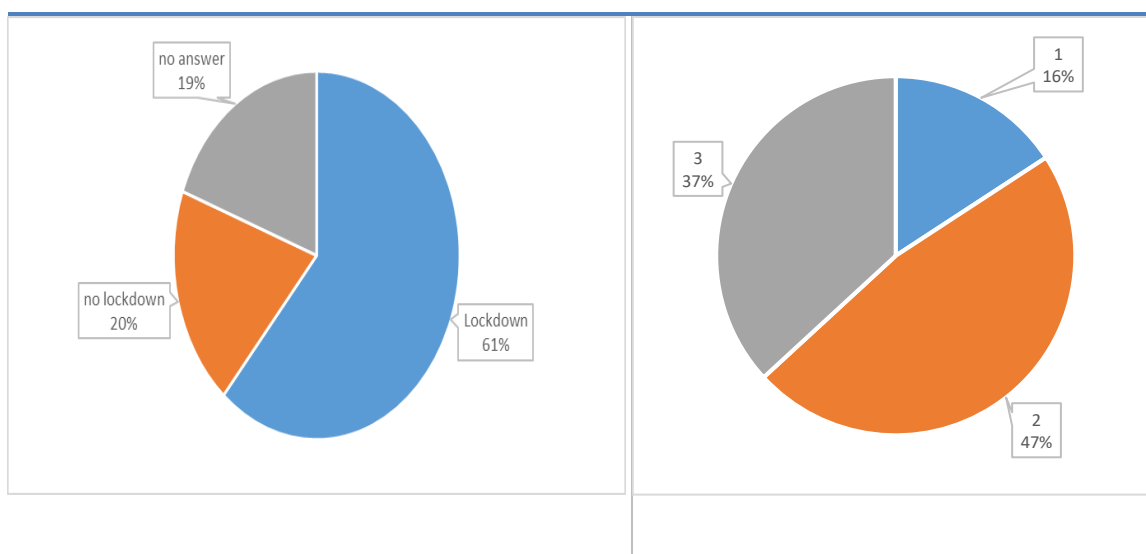
conditions (or expectations thereof) related to the economic effects of the COVID-19 pandemic.

20. The vast majority of members (a total of 25) disclosed information on the existence or impact of lockdown measures in their economies and on their steel industry. Only a subset of economies (12) indicated that their steel industry was affected - either directly or indirectly - by lockdown measures or by the economic consequences of Covid-19. Of these 12 economies, eight provided details at the level of company, site or plant, while three economies provided information only at the aggregate level.
21. As illustrated in Figure 2 Panel A, 19 members of the GFSEC (61%) implemented economy-wide lockdown measures, whereas six did not. Lockdown measures directly affected the operations of steel mills only in three economies, Argentina, France and South Africa, whereas in eight economies steel mill operations were only indirectly affected by the restrictions associated with lockdown measures (e.g. workers' limited mobility, social distancing, and reduced shifts). The steel industry was exempted from lockdown measures in eight economies, although one of these economies, Germany, reported reductions in production in the magnitude of 30% in some mills due to deteriorating market conditions (Figure 2 Panel B).

**Figure 2. Lockdown measures and impact on the steel industry**

Panel A: Economy-wide lockdown measures

Panel B: lockdown measures and steel industry



22. The information provided on capacity idling and production stoppages varies across jurisdictions, with some that are able to discern the decrease (in percentage terms) of the total annual capacity that has been idled for a certain steelmaking plant, and others that have limited access to such information. As illustrated in Table 4, steelmaking capacity that was idled can range from 70% of the total capacity of Argentina in April and May 2020 to 20%-25% of the capacity in the Netherlands and in the United States still idled at the time of the submission (end of June 2020). In some economies such as South Africa, all steel plants were on care and maintenance from 27 March 2020 to 30 April 2020 and gradually resumed production thereafter. In some other economies, the adjustment consisted in reducing production volumes following the deterioration in demand conditions as, for example, in the case of the United Kingdom.

Table 4. Capacity idling and production stoppages due to COVID-19

Economy	Capacity idling	
<b>Argentina</b>	The idling of steelmaking facilities resulting from the lockdown impacted severely during months of April and May 2020, when steel production fell -75% and -52%, respectively. More than 70% of steel production capacity was idled during that period.	
<b>Austria</b>	In early September one company has restarted a blast furnace which has been temporarily shut down since March. The restart of this blast furnace brings steel production back up to almost normal levels, after capacity was throttled back following Covid-19.	
<b>Brazil</b>	The whole steel sector in Brazil suffered the impact of deteriorating market conditions related to the Covid-19 pandemic. A stronger impact was felt by those who supply steel to the car-making and machinery and equipments industries. In May, there were 13 blast furnaces not operating (of which 7 were due to the pandemic market conditions). Moreover, 12 BOF/EAF equipments were not operating (of which 5 were due to the pandemic market conditions). As a consequence of recovering market conditions, there are in October just 9 blast furnaces not operating (7 since before the COVID-19 situation and 2 as a consequence thereof). Regarding BOF/EAF equipments, 4 of them are not operating (since before the pandemic). It is important to highlight that one plant has been definitely shut down (EAF - 500,000 MT/year).	
<b>France</b>	Plant level details on 5 out of 12 sites	<p>"Plant operating at 50% of its capacity (2 out of 3 BF shut down)"</p> <p>"Plant operating at 50% of its capacity (1 BF shut down). Little visibility on the idlings beyond the end of July 2020." "Constant activity at 35% on average during the period of sanitary lockdown."</p> <p>"Production was completely stopped (with the exception of shipments and a few workshops in a variable way) for the week from 16/3 to 13/4. Steelworks were shut down completely over 4 weeks"</p> <p>"All plants shutdown on March 23 for 3 full weeks. Then progressive recovery."</p>
<b>Japan</b>	The steel industry in Japan, integrated steel-making mills in particular, has been carrying out strong structural adjustments in recent years to strengthen its competitiveness with the future outlook of steel demand indicating unlikeliness of a significant level of growth. The COVID-19 pandemic has forced steel companies to take additional stricter actions such as further production adjustments in response to the challenging steel demand conditions, resulting that eight blast furnaces have currently been idled by taking ways such as maintenance, or "banking" by which such furnaces can be quickly reopened once the market situation gets better.	
<b>The Netherlands</b>	Idling due to market demands is still in place. More than 25% steel of production was idled.	

<b>Slovak Republic</b>	A blast furnace is idled from June 20 2019 due to market conditions; 35% annual capacity reduction due to COVID-19 pandemic which prevented the company from starting up this BF in March 2020. Due to COVID-19 pandemic related to deteriorating market conditions, the company temporary closed another blast furnace from May 20 to June 7, 2020 (1.5% annual capacity)
<b>South Africa</b>	All steel plants were on care and maintenance from 27 March 2020 to 30 April. The plants started up at 50% employment on 1 May and can currently operate at 100% employment as of 1 June.
<b>Turkey</b>	Due to the pandemic, various steelmaking facilities in our economy stopped or reduced their production since April 2020. The information at the plant level shows that 14 out of 36 companies stopped production, reduced the number of shifts or reduced production.
<b>United Kingdom</b>	Few UK plants were completely idled even though there was a significant reduction in demand, however, many plants did lower production to minimal levels and some used the UK government's Job Retention Schemes (JRS) to furlough workers.
<b>United States</b>	The disruptions to steel demand caused by the COVID-19 pandemic have been severe and unprecedented. To varying degrees, all major steel-consuming sectors in the United States have experienced significant contractions or are expected to contract in the remainder of 2020. For example, automobile manufacturing all but halted for a period of weeks, and vehicle demand is expected to be suppressed in the near term as a result of the impact of the pandemic on the broader economy. The oil and gas sector is experiencing a historic contraction, a phenomenon that began before the pandemic as a result of the price effect of supply decisions by certain governments, but that has been exacerbated by a collapse in consumption caused by lockdown and associated measures.

## 2. Overview of government policies and support measures in place in GFSEC economies

23. Thirty members (all members other than India) participated in the two rounds of information sharing in 2020 and updated their answers with respect to government policies and support measures in place in their economies.
24. This section provides a brief overview of the information and updates provided by these GFSEC members in Part 2 of the questionnaire, which is focussed on government policies, measures and practices, which potentially influence crude steelmaking capacity and market developments. It is followed by an overview of the information reported in Part 3 of the questionnaire that addresses the policy recommendations agreed to in the Berlin Ministerial Report. The detailed information on the reported government policies, measures and practices is available to GFSEC members through the GFSEC's members online portal.

### 2.1. Overview of the latest updates to Part 2 of the questionnaire

25. A majority of GFSEC members updated their answers to Part 2 of the questionnaire during the two rounds of information sharing in 2020. Four members (Mexico, Norway, Switzerland and the United States) indicated that no updates were necessary at this stage, as the information they provided during the previous rounds of information sharing was up to date. Many members (Argentina, Australia, Brazil, Canada, the European Union and its Member States, Indonesia, Japan, Korea, Russia, South Africa, Turkey and the United Kingdom) either updated or completed this part of the questionnaire.

## Government policies, measures and practices

### Measures to facilitate the closure of plants

26. In the context of the two rounds of information sharing in 2020, Australia, Indonesia, Korea and the United Kingdom provided new or updated information on relevant initiatives and measures to facilitate the closure of steel plants:
- *Australia* provided updated information on its economy-wide initiatives to assist workers and promote re-employment.
  - *Indonesia* reported regional development programs and investment initiatives.
  - *Korea* updated the information it has provided earlier on the Special Act on Corporate Revitalization.
  - The *United Kingdom* provided information on its incentives to assist workers and promote re-employment as well as on regional developments programs and investment initiatives that were introduced in the context of the closure of a steel plant in 2015.

### Measures to maintain or support the domestic production base

27. Several members provided updated or new information on their measures aimed at maintaining or supporting the domestic production base:

- *Australia* provided an update on government procurement policies that require domestic content, but are not specific to the steel sector.
- *Canada* provided information on its Accelerated Investment Initiative.
- *Indonesia* gave an update on its tax concessions and trade-related measures that are applied to fairly traded imports.
- *Korea* did not report any specific measures aimed at maintaining or supporting the domestic production base, but provided information under this heading on measures that have recently been put in place for all firms in the economy to help businesses cope with the impacts of Covid-19.
- *The United Kingdom* submitted information on measures aimed at assisting a steel company to comply with its obligations under the EU's Emissions Trading Scheme related to the UK's exit from the European Union.

#### Measures related to industry upgrading and innovation

28. Indonesia and the United Kingdom provided additional or new information on the measures related to industry upgrading and innovation:
- *Indonesia* provided information on a development program for steel-based industrial areas.
  - *The United Kingdom* provided information on measures to encourage plant modernisation, product specialisation, measures to support research and development activities and to upgrade steel workers' skills.

#### Establishing and ensuring compliance of steel-producing facilities with environmental standards

29. The European Union and Russia reported additional measures under this heading:
- *The European Union* provided information concerning increased fines for non-compliance with the environmental standards in Italy.
  - *Russia* indicated the introduction (or higher level) of pollution discharge fees in addition to previously reported measures.

#### National approaches to the steel sector and views on effective ways to address excess capacity

30. Several members provided additional inputs under section C of Part 2 of the questionnaire dealing with national approaches to the steel sector and views on effective ways to address excess capacity.

#### National strategies or development plans for the steel industry

31. During the two rounds of information sharing in 2020, the European Union and its Member States, South Africa, Turkey and the United Kingdom provided new or additional information under this heading:
- *The European Union* provided information on the Innostal programme, a sector-specific programme in Poland, implemented by the National Centre for Research and Development for the steel industry.

- *South Africa* informed members about its Re-imagined industrial strategy.
- *Turkey* noted a draft By-Law on “Integrated Pollution Prevention and Control” that complies with the Industrial Emissions Directive (2010/75EU) and which will come into force on 31 December 2023, and provided details on a sectoral compliance project for the iron and steel industry.
- Although it does not have a comprehensive plan for the steel industry, *the United Kingdom* noted its “Future Capacities and Capabilities of the UK Steel Industry” report that was published by the Government in December 2017 and which sets out opportunities and challenges for the UK steel sector.

*Views on possible effective steps to address challenges related to steel excess capacity and to encourage adjustment*

32. Several members (Argentina, Brazil, Japan, Turkey and the United Kingdom) provided additional inputs on possible effective steps to address challenges related to steel excess capacity and to encourage adjustment:
- *Argentina* indicated the need to remove government support that contributes to excess capacity and distorts fair competition internationally.
  - *Brazil* noted the necessity to remove barriers to exit from the market and to eliminate any government support that contributes to excess capacity in the steel sector.
  - Referring to the GFSEC Tokyo Ministerial Meeting Chair’s Report and Chair’s Statement, *Japan* stressed the need to continue the work to address global steel excess capacity based on the GFSEC efforts made so far as an open platform where all G20 and interested OECD members are welcome to join in a spirit of constructive exchange and cooperation. Japan also noted the need to look at regional steel market developments, including in the South-East Asia and the Middle East.
  - *Turkey* noted that global excess capacity would be reduced through free market mechanisms over time. To this end, the removal of trade barriers and government support measures that contribute to excess capacity as well as removal of barriers to exit will play a crucial role.
  - *The United Kingdom* stressed the impact of global overcapacity on the UK’s steel industry, which has led to a substantial reduction in the country’s steel production. The United Kingdom noted its longstanding regional policies and programmes of unemployment assistance aiming to minimise the impact on the workers affected, and encouraged all current and former members of the GFSEC to fully implement the policy recommendations agreed at the Berlin and Paris Ministerial meetings.

## Overview of the latest updates to Part 3 of the questionnaire

33. This section provides a high-level overview of policies and measures reported by members in Part 3 of the questionnaire, which addresses the policy recommendations approved at the GFSEC Ministerial Meeting in Berlin in November 2017. This section briefly discusses existing measures and practices reported by GFSEC members in the following policy areas: framework conditions; market-distorting subsidies and other support measures; fostering a level-playing field in the steel sector; fostering industry restructuring by assisting displaced workers; government targets; issues related to mergers and acquisitions; and officially supported export credits for goods and services associated with crude steelmaking projects. It also includes an overview of members' best practices for steel industry adjustment and experiences with new sources of steel demand. This section also briefly overviews information that has been reported by members in the context of the previous rounds of information sharing in 2018 and 2019, to give a broader perspective of policy developments in the areas noted above since the policy recommendations were developed and approved by the GFSEC in late 2017.

### Section A. Framework conditions

i). Framework conditions and institutional settings that ensure proper market functioning and competitive conditions in their steel market;

34. In the context of the previous rounds of information sharing, all members provided explanations regarding framework conditions and institutional settings that ensure proper market functioning and competitive conditions in their steel market. During the two rounds of information sharing in 2020, three members (Russia, Turkey and the United Kingdom) provided updated or new information under this heading:

- *Russia* updated its information related to the general legal provisions of competition law and the Federal Antimonopoly Service of the Russian Federation (FAS), which is in charge of ensuring and enforcing fair competition in the economy.
- *Turkey* updated its answer noting that private entrepreneurs in Turkey are informed about the idle capacity problem through policy documents and sectoral guidance.
- The *United Kingdom* noted that it has an established legal and institutional framework relating to competition both independently and as part of the European Union. In setting policy in this area, the UK government puts in place rules and regulations that determine the appropriate conduct of firms and individuals, and the institutions necessary for enforcing them.

ii). Trade and investment policies that contribute to the removal of barriers to trade and foreign direct *investment* (FDI);

35. During the previous rounds of information sharing, all members provided explanations on how trade and investment policies contribute to the removal of barriers to trade and foreign direct investment. During the two rounds of information sharing in 2020, Australia, Brazil, Indonesia, Mexico, Turkey and the United Kingdom provided updated or new information under this subsection:

- *Australia* updated the information provided earlier on the impact of its unilateral, regional and bilateral liberalisation.
- *Brazil* in its updated answer indicated that there are no restrictions for foreign companies to invest in the steel sector in Brazil.

- *Indonesia* updated information on the results of its efforts to open trade and foreign direct investment.
- *Mexico* revised the answer that was provided during the previous rounds of information sharing and provided information on the policy guidelines outlined in the Mexican National Development Plan 2019-2024.
- *Turkey* in its update indicated that its steel market operates under the principle of free competition and in line with the World Trade Organization rules.
- The *United Kingdom* in its answer noted that the government aims to remain a champion of free and fair trade and to conduct an independent trade policy with multiple trade agreements and economic partnerships across the world, each of which aiming to reduce barriers and encourage market based investment decisions.

*iii). Aspects of competition law that ensure that all companies compete on a level playing field, irrespective of ownership, domestically or internationally*

36. Turning to the question on the aspects of competition law that ensure that all companies compete on a level playing field, all members provided relevant information in the context of the previous rounds of information sharing. During the second round of information sharing, Brazil, Russia and the United Kingdom provided updated or new information:

- *Brazil* noted that the Administrative Council for Economic Defense ensures that there is equal treatment and opportunities for all companies in Brazil and the antitrust legislation is enforced regardless of ownership or origin of the companies.
- *Russia* in its updated answer noted that its steel industry is subject to general bankruptcy rules common to other sectors and there are no special provisions for mills to exit the business.
- The *United Kingdom* in its answer noted that its competition law applies equally to all businesses, irrespective of ownership. The United Kingdom also provided information on the functions of its independent competition body, the Competition and Markets Authority (CMA).

*iv). Companies in the steel sector in a state of bankruptcy*

37. In the context of the previous rounds of information sharing the European Union, Russia and South Africa provided information on steel companies that are in a state of bankruptcy in their jurisdictions. During the new rounds of information sharing in 2020, *Russia* reported three additional companies that are in a state of bankruptcy and *Turkey* reported one company.

*v). Financial market regulations in place to address non-performing loans (NPLs)*

38. All members shared information on financial market regulations and practices in place to address non-performing loans during the previous rounds of information sharing. During the new rounds of information sharing in 2020, *Turkey* provided an update and the *United Kingdom* shared information on its framework to address non-performing loans as well as on the existing requirements related to corporate reporting and transparency.

vi). *Labour market regulations, social security and pension systems that support adjustment in a way which does not contribute to excess capacity, while ensuring the sustainability of the social welfare systems*

39. During the previous rounds of information sharing, the majority of members specified that the relevant measures and practices in place are general and applicable to all sectors, while other members provided details specific to the steel sector. In the context of the new rounds of information sharing in 2020, the *United Kingdom* provided additional information on its labour market regulations, and systems in place to facilitate labour adjustment in situations when a company needs to release workers.

vii). Ensuring that different levels of government do not have conflicting policy objectives in terms of addressing excess capacity

40. In the context of the previous rounds of information sharing, all members provided information on how different levels of government coordinate their policies. During the two rounds of information sharing in 2020, *Turkey* and the *United Kingdom* provided updated and new information:

- *Turkey* indicated that all relevant decisions are taken by the central level of government, with no conflicting policy objectives between different levels of government.
- *The United Kingdom* noted that all levels of government in the UK are subject to the same rules and regulations regarding state support, and gave details on the roles of different government departments and ministries with respect to policies related to or affecting the steel sector.

viii). Procurement rules and legal basis related to the steel sector

41. The majority of members provided information on procurement rules during the previous rounds of information sharing. Three members (*Australia*, *Turkey* and the *United Kingdom*) provided additional or new information on their procurement rules and practices related to the steel sector in the context of the two rounds of information sharing in 2020:

- *Australia* provided additional information on the Victorian State Government's Local Jobs First Policy, which is designed to ensure that small and medium enterprises are given full and fair opportunity to compete for Victorian Government procurement contracts. The policy is not specific to the steel sector, but can cover supply of steel, and is consistent with the procurement principle of value for money.
- *Turkey* indicated that it has not implemented any procurement rules or practices applicable only to the steel sector.
- *The United Kingdom* provided information on its general legal framework as well as relevant government documents specific to the steel sector.

## **Section B. Market distorting subsidies and other support measures by government or government-related entities**

*Preferential financing inconsistent with market-based conditions*

42. In the context of the previous rounds of information sharing, the vast majority of members noted they do not have in place preferential financing inconsistent with market-based conditions. *Canada* and the *United States* provided information on the measures in place, but specified that the measures they have reported were not

necessarily inconsistent with market-based conditions and were reported in the spirit of transparency.

43. During the two rounds of information sharing in 2020, *Canada* and the *United States* provided additional information on measures in place under this heading:

- *Canada* shared additional information on financial contributions to steelmaking companies by Innovation, Science and Economic Development Canada to help companies upgrade facilities, modernize steel production lines, reduce manufacturing costs, expand the range of products, and to bring new and innovative products to the market.
- The *United States* shared information on loan guarantees that were provided under the Paycheck Protection program (PPP), which is a component of the Coronavirus Aid, Relief and Economic Security Act enacted in March 2020 in response to the Covid-19 pandemic. The United States explained that the PPP provides businesses and non-profits with funds to pay up to two and half months of employee payroll costs, including benefits. The funds provided can also be used to pay rent, utilities, interest on mortgages, and certain other eligible expenses. The United States further explained that the funds are provided in the form of a loan that carries a 1% rate of interest, with a maturity of two or five years. These loans are originated and managed by private commercial lenders, but guaranteed by the U.S. Government.

*Equity infusions and conversions (including debt-for-equity swaps) inconsistent with market-based conditions*

44. No member reported these types of support measures during the two rounds of information sharing in 2020. During the previous rounds of information sharing all members indicated that no such measures are in place in their economies.

*Direct transfers*

45. During the two rounds of information sharing in 2020, the *United States* shared information on four grants and two cost refunds, each of which were provided by regional governments. As in its previous submissions, the United States explained that the reported measures correspond to programs that are available to a broad range of industries and these are not specific to the steel sector. Given the value, nature, and context of the reported measures, the United States does not consider these measures as market distorting or as such that lead to changes in crude steel production capacity. The United States further specified that the amounts listed as being awarded under each measure may not in all cases be disbursed, as access to the relevant incentives is frequently conditioned on certain performance requirements such as jobs created or maintained or investments consummated. If those requirements are not met, the full value of the awarded measure may not be realized.

*Tax benefits*

46. In the context of the previous rounds of information sharing in 2018 and 2019, two GFSEC members (Australia and the United States) provided information on tax benefits in place in their economies. During the two rounds of information sharing in 2020, the *United States* provided additional information on tax benefits, reporting thirteen tax credits, all of which were provided by regional governments.
47. In the comments it provided, the *United States* noted that the reported measures are based on information contained in the public domain and that it cannot guarantee the accuracy or completeness of this information. The United States also noted that the reported incentives are provided under programs that are available to a broad range of industries and these are not specific to the steel sector. The United States also

added that in view of the value, nature and context of the listed measures, it does not consider these measures as such that distort the market or implicate changes in crude steel production capacity. The United States further specified that the amounts listed as being awarded under each measure may not in all cases be disbursed given that the access to the relevant incentives is frequently conditioned on certain performance metrics such as jobs created or maintained or investments consummated. If those requirements are not met, the full value of the awarded measure may not be realized.

*Assumption of liabilities, administrative fees and other charges by governments or government-related entities inconsistent with market considerations*

48. No member reported these types of support measures during the two rounds of information sharing in 2020 as well as during the previous rounds of information sharing in 2018 and 2019.

Provision of *goods* and services by government and input support

49. During the previous rounds of information, Canada provided information on a government assistance measure by a provincial government, in the form of reduced electricity costs provided to businesses billed at the large power industrial rate (Rate L) that carry out an eligible investment project.
50. In the context of the two rounds of information sharing in 2020, one member (*Russia*) shared information, providing details on temporary scrap export quotas that were established from 1 September 2019 until 31 December 2019 (but not extended) due to scrap shortages in certain Federal districts.

Distortive discretionary policy measures or non-application of market based policy measures

51. During the two rounds of information sharing in 2020, no member reported these types of support measures.
52. The *United Kingdom* did not report any support measures in section B of Part 3 of the questionnaire, but under this heading provided information on measures taken by the UK government in response to the Covid-19 pandemic to ensure businesses across the economy. The United Kingdom specified that these support measures were designed in a way to ensure that assistance is only offered to those firms that have been impacted by the Covid-19 pandemic, with no market distortion. These measures are available to all sectors across the economy, not solely to the steel sector.
53. Under this heading, the United Kingdom also shared information on the report “Future Capacities and Capabilities of the UK Steel Industry” published by the government in December 2017. The United Kingdom explained that the report looks at the future market opportunities for UK steel producers and the challenges to accessing these.

***Section C. Fostering a level-playing field in the steel sector***

54. During the previous rounds of information sharing all members indicated that companies in their jurisdictions, irrespective of ownership, are subject to the same rules and regulations.
55. During the two rounds of information sharing in 2020 three members (*Indonesia*, *Turkey* and the *United Kingdom*) provided updated or new information under this section:

- *Indonesia* reiterated that Indonesian companies in the steel sector are subject to the same rules and regulations and added that there are no specific policies for the steel industry in Indonesia.
- *Turkey* indicated that it does not have any state-owned steel enterprises and the sector is wholly privately owned. All steel companies are subject to the same rules in Turkey.
- The *United Kingdom* explained that all of the laws and regulations referred to in the GFSEC questionnaire for information sharing apply equally to all companies in the United Kingdom irrespective of ownership.

#### **Section D. Fostering industry restructuring by assisting displaced workers**

56. In the context of the previous rounds of information sharing, Australia, the European Union and Japan indicated that they have taken employment measures for addressing the social costs of restructuring.
57. Five members (*Brazil, Canada, Indonesia, the United Kingdom and the United States*) provided updated or new information under this section during the two rounds of information sharing in 2020:
- *Brazil* explained that the economic crisis it faced in recent years had a considerable impact on the domestic steel industry. In order to continue to operate, many steel companies had to adjust their output while some had to shut down their production units and reduce the workforce. Brazil noted that no specific government measures were adopted to address unemployment in the steel sector, but general social security measures have been put in place to address temporary unemployment in all productive sectors of the economy and such measures remain in place.
  - *Canada* provided information on measures announced by the government on 29 June 2018, in light of exceptional circumstances to help Canadian workers and businesses in the steel, aluminium and manufacturing industries.
  - *Indonesia* indicated that no employment adjustment measures have been taken by the government for addressing the social cost of restructuring.
  - The *United Kingdom* answered in the affirmative to the question on whether the government has taken employment adjustment measures provided for addressing the social costs of restructuring, and referred to the information it provided in Part 2 of the questionnaire on the measures taken after the 2015 closure of a steel plant.
  - *The United States* provided updated information on the Trade Adjustment Assistance Program (TAA) that provides assistance to workers who have been adversely affected by foreign trade. It specified that according to the latest available data for the FY 2018, iron and steel mills and ferroalloy manufacturing were among the top five sectors in which workers were certified as being eligible for assistance.

#### **Section E. Government targets**

58. Under this heading, members are asked to provide information on any specific targets for reducing crude steel capacity, limitations set on crude steel capacity additions and any targets for increasing crude steel capacity.
59. During the two rounds of information sharing in 2020, four members (*Brazil, Indonesia, Mexico and the United Kingdom*) responded to this part of the questionnaire, either to

clarify that their governments do not have targets in place or to provide updated or new information concerning their targets.

- *Brazil* noted that the Brazilian government does not establish goals for the steel sector, and that there are no state-owned steel enterprises in Brazil. Private steel companies take their own decisions regarding temporary or definitive shutdowns as well as the construction, expansion and modernization of their plants.
- *Indonesia* provided information on its 25 mmt capacity increase target for the period 2015-2035 that was announced in the National Master Plan of Industrial Development in 2015, noting that it would not contribute to excess capacity due to the massive infrastructure projects being built which are expected to create significant demand for steel.
- *Mexico* provided additional information on the foreign trade instruments that it implemented to address the global steel excess capacity challenge and its implications.
- The *United Kingdom* noted that it allows market conditions to prevail and the government does not set targets for the steel sector.

## **Section F. Issues related to mergers and acquisitions**

60. During the previous rounds of information sharing in 2018 and 2019, the majority of GFSEC members (Australia, Brazil, Canada, the European Union and its Member States, Japan, Mexico, Russia, South Africa and the United States) shared information on mergers and acquisitions (M&As) taking place in their steel sectors during the period covered by the exercise.
61. In the context of the new rounds of information sharing in 2020, several members (*Brazil, Canada, the European Union and its Member States, Indonesia, Japan, Korea, Mexico, Russia, South Africa, the United Kingdom and the United States*) provided new or additional information regarding mergers and acquisitions (M&As) that had taken place in their steel sectors during the period 2014-2019.

## **Section G. Ensuring export credits do not contribute to excess capacity**

62. During the previous rounds of information sharing, Japan shared information on two programmes that were in place in the period 2014-2016. Several other members (Argentina, Australia, Brazil, Canada, Korea, Mexico, Norway, Russia, Saudi Arabia, South Africa, Switzerland, Turkey and the United States) indicated that they do not provide export credits associated with crude steelmaking projects.
63. In the context of the two rounds of information sharing in 2020, *the European Union and its Member States* and the *United Kingdom* shared relevant information with the GFSEC:
  - The *European Union and its Member States* shared information on 26 export credit transactions associated with crude steelmaking projects for the period 2014-2019. The European Union noted that the export credits provided by the EU Member States comply with the terms and conditions established by the OECD Arrangement on officially supported Export Credits and the respect of these terms and conditions ensure a level playing field between exporters of the participants to the Arrangement. The European Union further added that officially supported export credits granted by the relevant bodies of the EU Member States have not contributed to excess capacity.

- The *United Kingdom* specified that it did not provide any export finance support for crude steelmaking projects in the period 2014-2018.

***Section I. Steps to eliminate market-distorting subsidies and other types of support, best practices for steel industry adjustment, and new sources of steel demand***

64. During the first round of information sharing in 2020, four members (*Australia, Brazil, Indonesia* and the *United Kingdom*) provided additional information under this heading.

*Measures to eliminate market-distorting subsidies and other types of support*

65. The *United Kingdom* explained that the UK Government has not needed to take steps to remove market-distorting subsidies given that it has a long established practice of not providing such subsidies or other forms of damaging government support.

*Best practices for steel industry adjustment*

66. *Indonesia* noted that its steel industry is looking for the best practical actions in a progressive way and that GFSEC meetings can provide more insights on the topic.
67. The *United Kingdom* referred to the information provided in Part 2 of the questionnaire regarding measures taken by the UK government following the liquidation of a steel plant in 2015 that resulted in job losses by 2000 employees.

***Members' experiences on new sources of steel demand***

68. During the two rounds of information sharing in 2020, *Brazil* and *Indonesia* shared their experiences on new sources of demand:
- *Brazil* explained that the federal government increases opportunities for domestic and foreign private companies to participate in the implementation of infrastructure projects in Brazil through the Investment Partnerships Program (IPP). The implementation of these infrastructure projects could lead to stronger steel demand. The Brazilian government, however, does not set targets or provide advice for production, trade and investments in the steel sector.
  - *Indonesia* noted that government-led infrastructure development contributes to the current increase of steel demand in Indonesia. The current government policy is focusing on the development of essential infrastructure such as highways, railways, ports, airports and other infrastructure projects through Indonesian provinces aimed at enhancing connectivity.

### 3. Overview of the exchanges among GFSEC members on subsidies and other types of support by government and government-related entities

69. The GFSEC review process, which was established in 2018 pursuant to principle VI of the Berlin Ministerial Report, allows members to provide necessary clarifications and to respond to questions raised by other members regarding steelmaking capacity developments, government policies as well as subsidies and other types of support by government and government-related entities. Full information on the questions posed by members to one another, as well as details in members' responses to these questions, is available in the GFSEC members' online portal. This section provides a high-level summary, only noting the different issues discussed by GFSEC members related to subsidies and other types of support by government and government-related entities during the review exercise that took place between February and August 2020. The categories in which the Annex is divided follow the GFSEC questionnaire for information sharing, based on the text of the Berlin Ministerial Report and is not intended to imply an assessment of the measures discussed.

#### ***Preferential financing***

70. In the context of the review process in 2020, *Mexico* was asked whether the Mexican development bank system has provided funding to any business in the steel sector; *Indonesia* was invited to comment on the debt restructuring involving a state-owned steelmaking enterprise; the *European Union* was asked to comment on loans made by the European Investment Bank (EIB) to steelmaking enterprises and the *United Kingdom* was invited to comment on an announcement made by the Department for Business, Energy and Industry Strategy concerning an emergency loan provided to a steelmaking enterprise. While discussion continues on some items, the evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report

#### ***Equity infusions and conversions***

71. *The European Union and its Member States* were asked to comment on the announcement made by a steelmaker about the conclusion of an agreement entailing an investment by state-sponsored entities. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

#### ***Tax benefits***

72. GFSEC members raised questions regarding tax incentives in *Australia* and *Turkey*. *Australia* was asked about a tax deferment that was granted to a steelmaker; *Turkey* was invited to comment on tax incentives that according to publicly available information will be granted to a steelmaker, and to provide information on the selection criteria used for the company qualifying for these support measures. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

73. During the previous rounds of the review process in 2018, some members posed questions to *Indonesia* about tax allowances and tax holidays that were introduced under economic stimulus packages in order to attract investments to Indonesia. These measures were indicated as remaining under discussion in the Paris Ministerial report and in the Tokyo Chair's report. There have been no further exchanges on the identified measures in 2020 and these measures remain under discussion.

### ***Provision of goods and services by a government***

74. GFSEC members also raised questions to *India*, *Russia* and *Turkey* regarding measures associated with the provision of goods and services by governments and input support.
75. *India* was invited to comment on the foreseen incentives under the Draft Policy for Promotion of Greenfield Investments in the Steel Sector that was recently issued by the Government. India did not provide any responses to the questions posed to it by GFSEC members.
76. A question was posed to *Russia* regarding the temporary export quota for waste and scrap of ferrous metals that was introduced in 2019; and *Turkey* was invited to comment on publicly available information that discusses government support on energy prices granted to a steel producer. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.
77. During the previous rounds of the review process in 2018, members identified cases of raw material support in *Indonesia*. These measures were indicated as remaining under discussion in the Paris Ministerial report and in the Tokyo Chair's report. There have been no exchanges on these measures in 2020 and these measures remain under discussion.

### ***Discretionary policy measures or non-application of market based policy measures***

78. *Australia* was invited to provide details on the Victoria State local content requirement. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

## Annex 2. Details of the review process

1. Building on the work done up to the 2019 GFSEC Tokyo Ministerial meeting, two new rounds of the GFSEC review process took place between February 2020 and August 2020. The key outcomes of this year's collective review process with respect to the subsidies and other types of support by government and government-related entities on whether or not they fall under paragraph 57 of the Berlin Ministerial Report <sup>19</sup> are presented in this Annex.
2. The categories in which the Annex is divided follow the GFSEC questionnaire for information sharing, based on the text of the Berlin Ministerial Report and is not intended to imply an assessment of the measures discussed.
3. This Annex builds on Annex 2 of the Tokyo Chair's report – for issues that were under discussion in that report – and covers new measures reviewed during 2020. Consequently, in 2020 members reviewed measures in non-participating jurisdictions for which discussions were not concluded during the reviews that took place in 2019, in addition to reviewing measures taken by the GFSEC's current membership. Further details on the measures of GFSEC members highlighted in the table below can be

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<sup>19</sup> Paragraph 57 of the 2017 Berlin Ministerial Report: In line with the G20 Leaders' mandates at the Hangzhou and Hamburg Summits, the Global Forum provides the following recommendations for concrete policy solutions to reduce excess capacity and enhance market function in steel sectors. Governments should remove and refrain from market distorting subsidies and other types of support measures by governments or government-related entities that contribute to excess capacity. This is irrespective of the vehicles used for such measures, whether direct or indirect, or whether they are or are not subject to WTO agreements, and covers the value chain from inputs to the final steel product. In cases in which they distort competition and contribute to excess capacity, such measures include, inter alia:

- Preferential financing inconsistent with market-based conditions, including debt forgiveness, guarantees and other transfers of liabilities, provision of guarantees or support given to an insolvent or ailing enterprise without a credible restructuring plan that enables the enterprise to return to long-term viability within a reasonable time, and/or without the enterprise significantly contributing to the restructuring costs. It also includes policy loans inconsistent with market consideration, whether through formal bank lending, bond market, asset sales to government, or other financial channels.
- Equity infusions and conversions (including debt-for-equity swaps) inconsistent with market based conditions.
- Grants, awards and cost refunds.
- Tax exemptions, reductions, and credits.
- Assumptions of liabilities, administrative fees or other charges by governments or government-related entities, inconsistent with market considerations.
- Provision of goods and services by a government (for less than adequate remuneration) and input support throughout the value chain from inputs to the final steel product preferentially or at non-market rates, which have economic implications. This includes provision of land, energy, raw materials, utilities, services, quotas to export and other inputs. It also includes support through raw materials such as preferential access, dual pricing, and distortive financial practices.
- Distortive discretionary policy measures or non-application of market based policy measures. This includes export subsidies, tax rebates, quotas to import, local content support including to consumers or downstream industries, local content requirements, restrictions to inward investment or support to outward investment, misappropriation of intellectual property, price fixing and other anti-competitive practices, mergers and acquisitions at non-market conditions, isolation of domestic trading from international price arbitrage or separation of domestic from external price setting, lax enforcement of regulations affecting production or sale, and non-enforcement of bankruptcy regulations.

found in Annex 1 of this report, while details on the measures taken in non-participating jurisdictions can be found in the main body of this report.

### ***Preferential financing***

#### *Indonesia*

Type of Measure	Collective review process
Provision of guarantees	Under ongoing discussion

#### *European Union*

Type of Measure	Collective review process
Loans	Not under paragraph 57 of the Berlin Ministerial Report

#### *United Kingdom*

Type of Measure	Collective review process
Loan	Not under paragraph 57 of the Berlin Ministerial Report

### ***Equity infusions and conversions***

#### *European Union*

Type of Measure	Collective review process
Equity investment ( <i>Italy</i> )	Not under paragraph 57 of the Berlin Ministerial Report

## Tax benefits

### Australia

Type of Measure	Collective review process
Tax deferrals	Not under paragraph 57 of the Berlin Ministerial Report

### Indonesia

Type of Measure	Collective review process
Tax allowances	Under ongoing discussion
Tax holidays	Under ongoing discussion

### Turkey

Type of Measure	Collective review process
Tax exemptions	Not under paragraph 57 of the Berlin Ministerial Report
Tax reductions	Not under paragraph 57 of the Berlin Ministerial Report

## Provision of goods and services by a government

### Indonesia

Type of Measure	Collective review process
Export restrictions on nickel ores and metal waste and scrap	Under ongoing discussion
Raw materials support	Under ongoing discussion

### Russia

Type of Measure	Collective review process
Export quotas on waste and scrap of ferrous metals	Not under paragraph 57 of the Berlin Ministerial Report

### Turkey

Type of Measure	Collective review process
Input support through the provision of energy	Not under paragraph 57 of the Berlin Ministerial Report

***Discretionary policy measures or non-application of market based policy measures***

*Australia*

Type of Measure	Collective review process
Local content requirements	Not under paragraph 57 of the Berlin Ministerial Report

*P. R. of China*

Type of Measure	Collective review process
Outward investment support	In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report

### Annex 3. Extracts from G20 Communiqués

#### **G20 Leaders, Osaka, 28-29 June, para 9**

##### **Excess Capacity**

*While we note the progress made so far by the Global Forum on Steel Excess Capacity (GFSEC), we ask relevant Ministers of the members of the GFSEC to explore and reach a consensus by fall 2019 on ways to further the work of the Forum.*

#### **G20 Leaders, Buenos Aires, 30 November-1 December 2018, para 28**

*Recalling our commitments from Hangzhou and Hamburg, we welcome the concrete policy solutions developed by the Global Forum on Steel Excess Capacity (GFSEC), facilitated by the OECD. We call on all members to implement the Berlin and Paris GFSEC Ministerial recommendations and commitments. We look forward to a substantive report by June 2019.*

#### **G20 Leaders, Hamburg, 7-8 July 2017, para 6**

**Excess Capacities:** *Recognising the sustained negative impacts on domestic production, trade and workers due to excess capacity in industrial sectors, we commit to further strengthening our cooperation to find collective solutions to tackle this global challenge. We urgently call for the removal of market-distorting subsidies and other types of support by governments and related entities. Each of us commits to take the necessary actions to deliver the collective solutions that foster a truly level playing field. Therefore, we call on the members of the Global Forum on Steel Excess Capacity, facilitated by the OECD, as mandated by the Hangzhou Summit, to fulfil their commitments on enhancing information sharing and cooperation by August 2017, and to rapidly develop concrete policy solutions that reduce steel excess capacity. We look forward to a substantive report with concrete policy solutions by November 2017, as a basis for tangible and swift policy action, and follow-up progress reporting in 2018.*

#### **G20 Leaders, Hangzhou, 4-5 September 2016, para 31**

*We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from government or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. To this end, we call for increased information sharing and cooperation through the formation of a Global Forum on steel excess capacity, to be facilitated by the OECD with the active participation of G20 members and interested OECD members. We look forward to a progress report on the efforts of the Global Forum to the relevant G20 ministers in 2017.*

**G20 Finance Ministers and Central Bank Governors, Chengdu, 23-24 July 2016, para 5**

*We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from governments or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. The G20 steelmaking economies will participate in the global community's actions to address global excess capacity, including by participating in the OECD Steel Committee meeting scheduled for September 8-9, 2016 and discussing the feasibility of forming a Global Forum as a cooperative platform for dialogue and information sharing on global capacity developments and on policies and support measures taken by governments.*

**G20 Trade Ministers, Shanghai, 9-10 July, 2016, para 10**

*We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from governments or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. The G20 steelmaking economies will participate in the global community's actions to address global excess capacity, including by participating in the OECD Steel Committee meeting scheduled for September 8-9, 2016 and discussing the feasibility of forming a Global Forum as a cooperative platform for dialogue and information sharing on global capacity developments and on policies and support measures taken by governments.*

## Annex 4. Terms of Reference of the GFSEC

### TERMS OF REFERENCE OF THE GLOBAL FORUM ON STEEL EXCESS CAPACITY

The terms of reference emanate from the call for a Global Forum on Steel Excess Capacity by G20 Leaders at September 2016 meeting in Hangzhou, China, (paragraph 31 of their Communiqué), from subsequent statements in the Hamburg (paragraph 6), Buenos Aires (paragraph 28) and Osaka (paragraph 9) Summits, as well as from the resulting Berlin Ministerial Report, and Paris Ministerial Report:

#### ***Mission***

As described in, and based on the foregoing, the Global Forum will:

- Ensure increased and effective communication, information sharing and co-operation between its members.
- Take effective steps to address the challenges of excess capacity so as to enhance market function and encourage adjustment.
- Report on the progress of the Global Forum's work to the relevant G20 ministers in 2020 and yearly thereafter.

#### ***Membership***

Membership of the Global Forum is open to all G20 members and interested OECD members (see enclosed List for current Members). All Global Forum Members participate on an equal footing.

#### ***Structure***

Decisions by Global Forum members, who participate on an equal footing, are taken on the basis of consensus.

For its effective functioning, the Global Forum requires a Steering Group. This is composed of no more than nine members, the largest steel-producing economies members of the GF<sup>20</sup>, plus the incumbent G20 Presidency member. The latter and two members of the Steering Group will serve as the Chairs of the Global Forum, as selected annually by the Global Forum members, taking into account a member's willingness to serve, production and capacity, and the balance between regions and developing and developed members.

To achieve its mandate, the Global Forum will convene at least twice per year, at the senior official and high level, as necessary.

The GF may invite relevant experts, economic operators, academia, and international organisations to provide input, as warranted and on a consensus basis.

#### ***Facilitator***

As described by paragraph 31 of the Hangzhou Summit Leaders' Communiqué, the OECD would facilitate the work of the Global Forum, its Steering Group and Chairmanship. Its functions include technical,

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<sup>20</sup> Including the European Union, Japan, India, the United States of America, Russia, Korea, Brazil and Turkey.

analytical, and meeting facilitation, as requested by the Global Forum.

### ***Expenditures***

The expenditures of the Global Forum shall be financed by its members. Funding shall take place through:

- Voluntary contributions; and/or
- A scale of contribution to be agreed by the members of the Global Forum.

### ***Duration***

The duration of the Global Forum is until end 2022. The duration can be extended based on the consensus of the members.

## List of members

1. Argentina
2. Australia
3. Austria
4. Belgium
5. Brazil
6. Canada
7. European Union
8. Finland
9. France
10. Germany
11. Greece
12. Hungary
13. India
14. Indonesia
15. Italy
16. Japan
17. Luxembourg
18. Mexico
19. Netherlands
20. Norway
21. Poland
22. Russia
23. Slovak Republic
24. South Africa
25. South Korea
26. Spain
27. Sweden
28. Switzerland
39. Turkey
30. United Kingdom
31. United States