



Lessons learned from past experience, global observations of the excess capacity and the role of GFSEC in the global steel industry

The Japan Iron and Steel Federation (JISF)

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Outline

1. Lessons learned from past experience
2. Global observations of the excess capacity and the role of GFSEC in the global steel industry

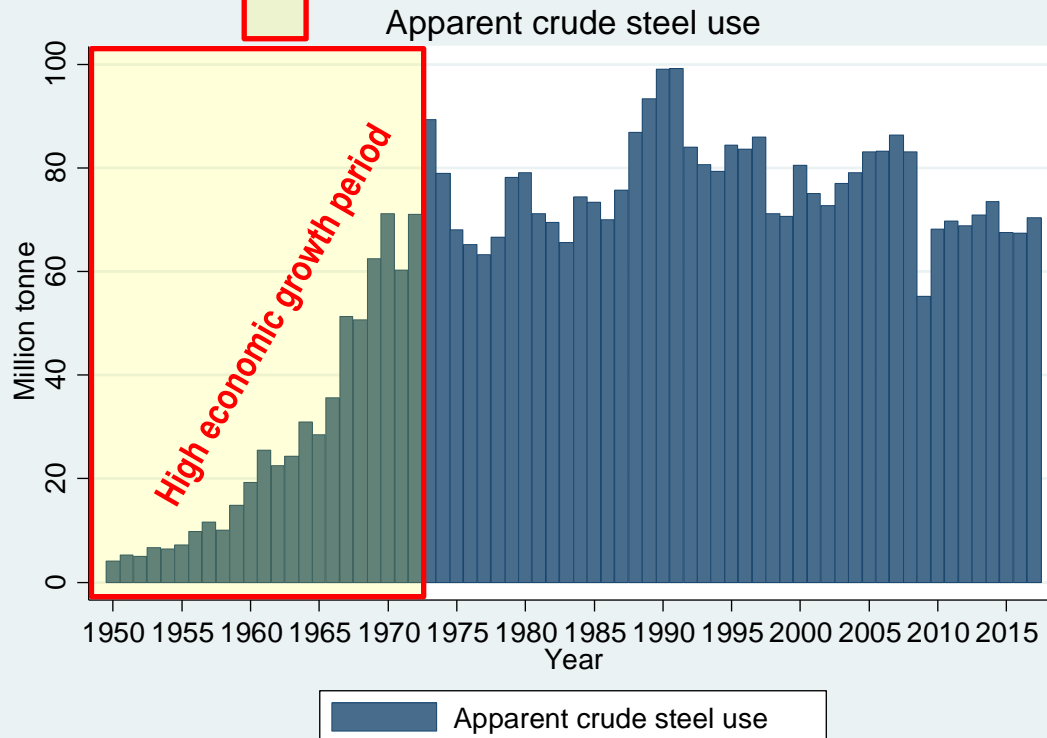


1. Lessons learned from past experience



Excess capacity in the past

Excess capacity in the past



- i. **Excess capacity** had been created in the end of the **high economic growth period**.
 - ii. **Overoptimistic demand forecast*** brought about the excess capacity, with steel firms **rushing to expand** on the back of availability of **lands** and **funds**.
- Thus, capacity build-up was not demand-pulled, but **supply-driven!**

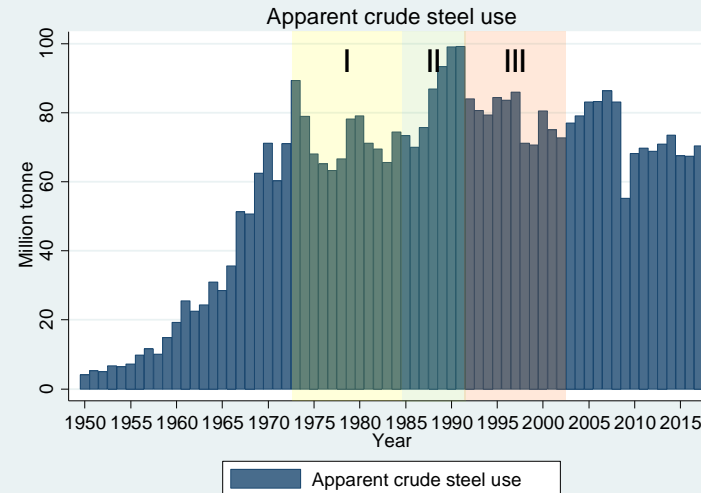
* Japan's steel demand was forecasted to reach 134 mmt in 1985, according to a forecast released in 1972 (actual Japan's steel demand was 73 mmt in 1985).

Source: JISF



A number of crises facilitated the structural adjustment in the Japanese steel industry

Periods of Japan's structural adjustment



	Background	Objective
I. 1973-1984	<ul style="list-style-type: none"> Two oil crises (1973 and 1979) End of high economic growth 	Structural improvement (transformation from volume to value)
II. 1985-1991	<ul style="list-style-type: none"> Plaza Accord (1985) and sharp yen rise 	Business rebuilding (diversification)
III. 1992-2003*	<ul style="list-style-type: none"> Lost decade after the bubble burst Stagnation of domestic industries and transfer of production overseas 	Drastic structural rebuilding* (selection and concentration)

* To cope with global excess capacity, Japanese steel firms **have still continued to make efforts to remain competitive through integration of production bases and consolidation/restructuring!**

Type of firms	Key feature	Similarity
Integrated firms (BF/BOF)	Voluntary corporate initiatives	<ul style="list-style-type: none"> Special fund for employment adjustment Employment adjustment without layoff
EAF firms	Policy intervention	



Mapping Japan's structural adjustment by players: structural adjustment was carried out in collaboration between these players

Government

Structural adjustment policy

Employment policy

Steel demand forecast

Steel associations

Requests for government policies based on opinions from the steel industry

Compiling statistics / promoting research and study

Steel firms

Voluntary based closures / consolidation of production bases

Streamlining workforces on the premise of securing employment

Business diversification and development of new businesses

Development of steel-related technology



Overview of structural adjustment policy

Objectives

Capacity reduction

Shifts to new
business areas

Business alliances

Enhancement of
competitiveness

Measures

Exemptions from the
Antimonopoly Act

Debt guarantees

Preferential tax treatment

Low-interest loans from
public corporations

Developing new
products/technologies

Structural adjustment policy



Overview of employment policy

Employment policy

Special fund for employment adjustment (job training, etc.)

Extension of employment insurance benefits

Support for reemployment

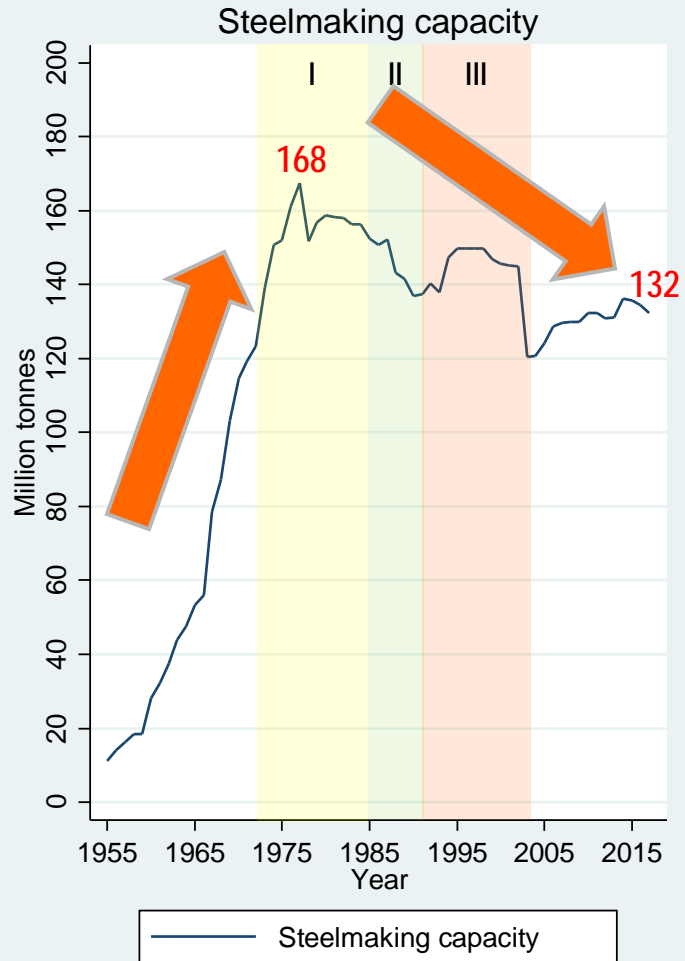
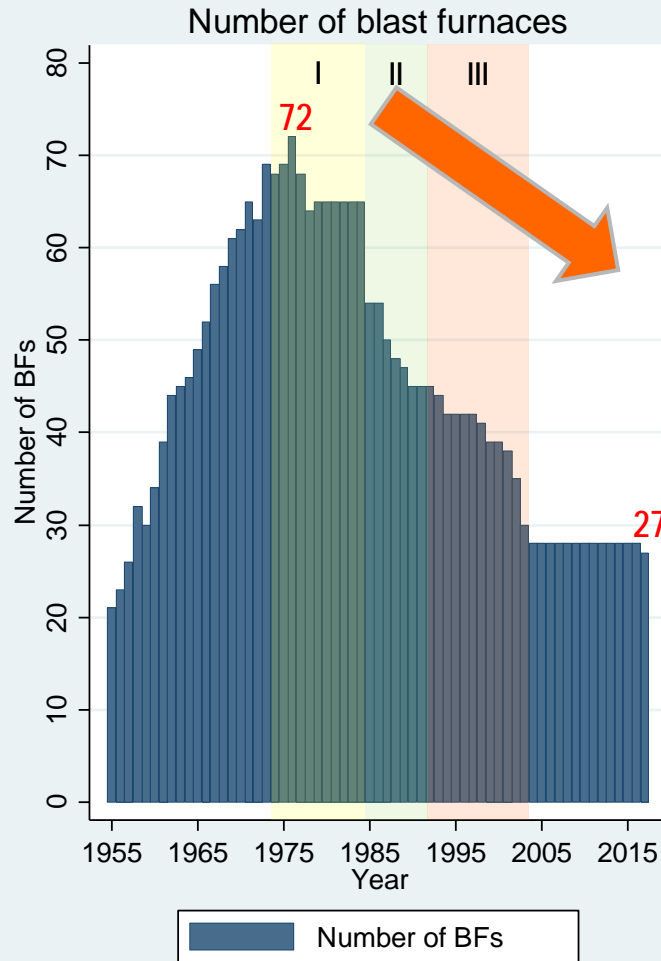
Promotion of local employment

A foundation for job secondment/transfer funded by government and industry



Integrated steel firms decreased the number of their blast furnaces, while upgrading them

Structural adjustment (1)

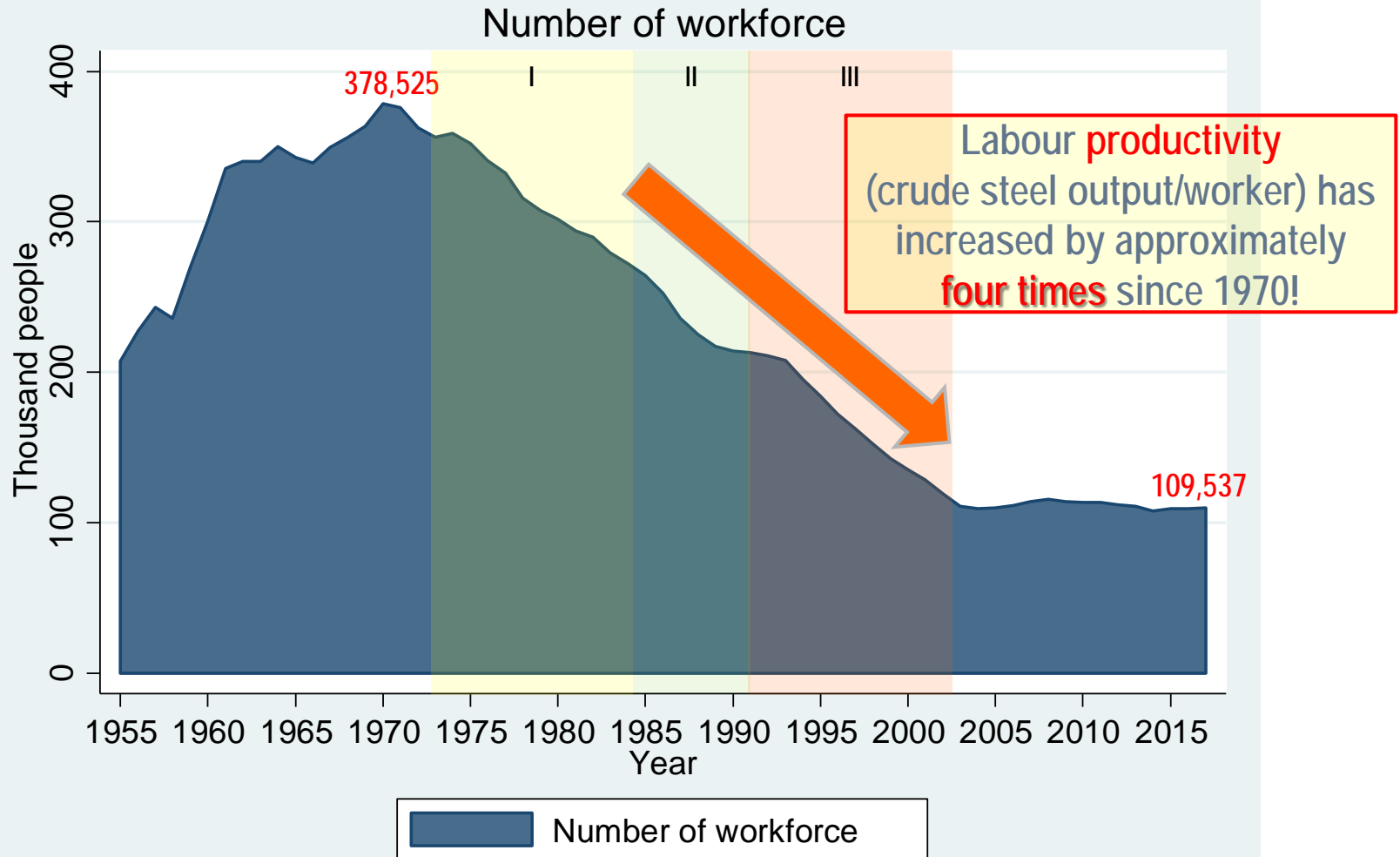


Source: METI and GFSEC Ministerial report (2018)



The number of **workforce** in the overall steel industry was reduced to **one third**, while ensuring job security

Structural adjustment (2)

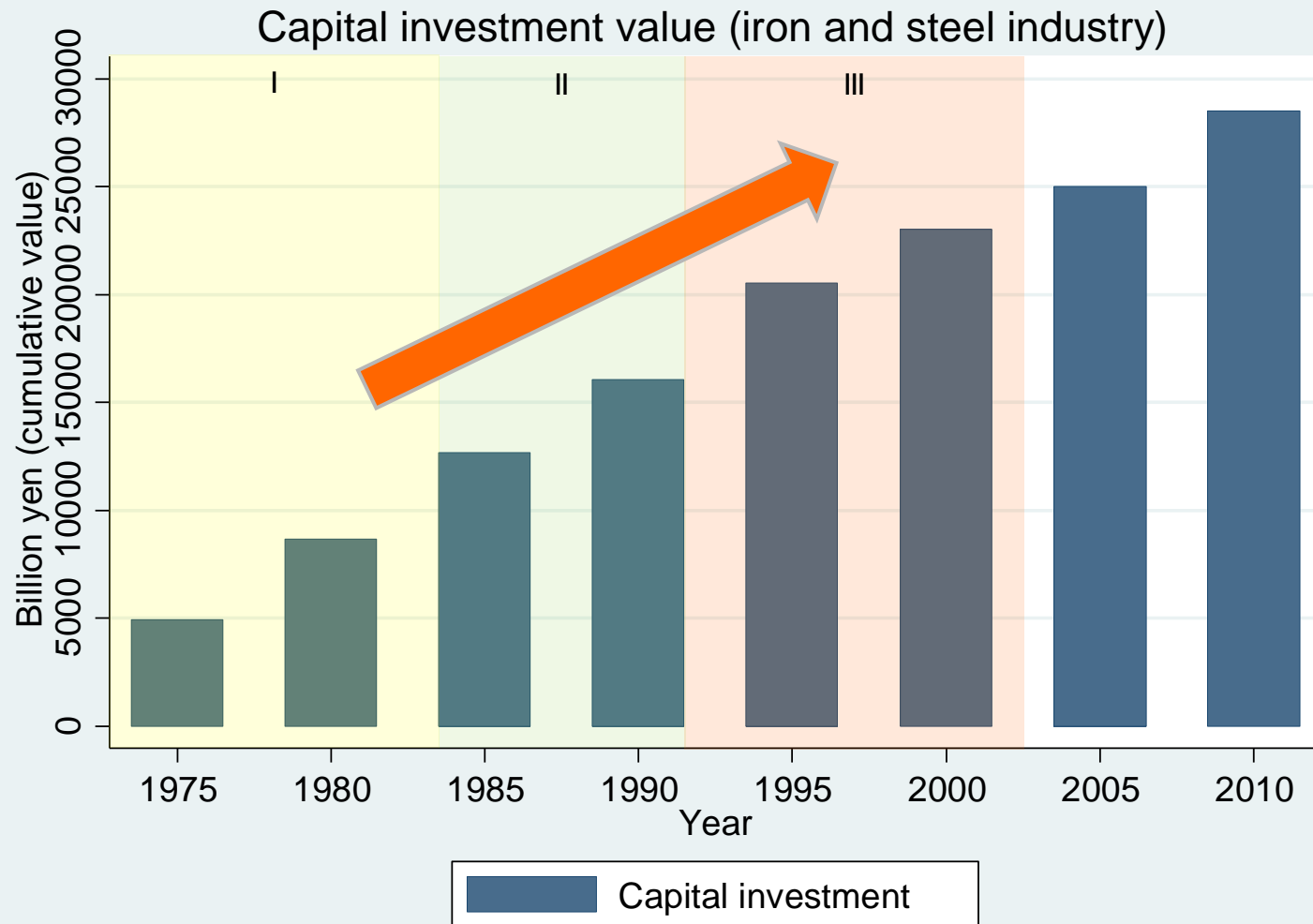


Source: METI



Japanese steel firms have continued investment (e.g. **R&D**, **energy conservation** and **environmental protection**), while implementing structural adjustment

Investment activity



Source: METI



Steel demand **forecast by the government** has played a key role to assess business environment surrounding the steel market

Role of steel demand forecast (1)

Gathering information
from relevant
organisations

Release of steel
demand forecasts on
quarterly basis

Impact on
management
decisions

Steel firms

Steel-using
sectors

Research institutes

Government:
Steel demand
forecast

Individual
steel firms'
production
activities



Steel demand **forecast by the government** is one of the best practices for stabilising domestic steel supply and demand balance

- + Releasing quarterly demand forecast
- + Monitoring the domestic market and creating common understanding of the current situation
- ▶ Positive impacts on **stabilisation of steel supply and demand balance**



Summary of findings

- Structural adjustment requires a **continuous and consistent effort** by both the private sector and government
- **Voluntary, timely and continuous corporate initiatives** are keys to structural adjustment
- **Appropriate government measures** (encouraging capacity reduction, assisting reemployment etc.) help promote such continuous corporate initiatives
- **Steel demand forecast** by the government also plays a significant role to **stabilise domestic steel supply and demand balance**



What would have happened if the Japanese steel industry had not implemented structural adjustment?





Negative impacts



- Inefficient facilities
- Low value-added products
- Low labour productivity
- Low capacity utilisation rate

► Negative impacts on steel firms' profit



2. Global observations of the excess capacity and role of GFSEC in the global steel industry

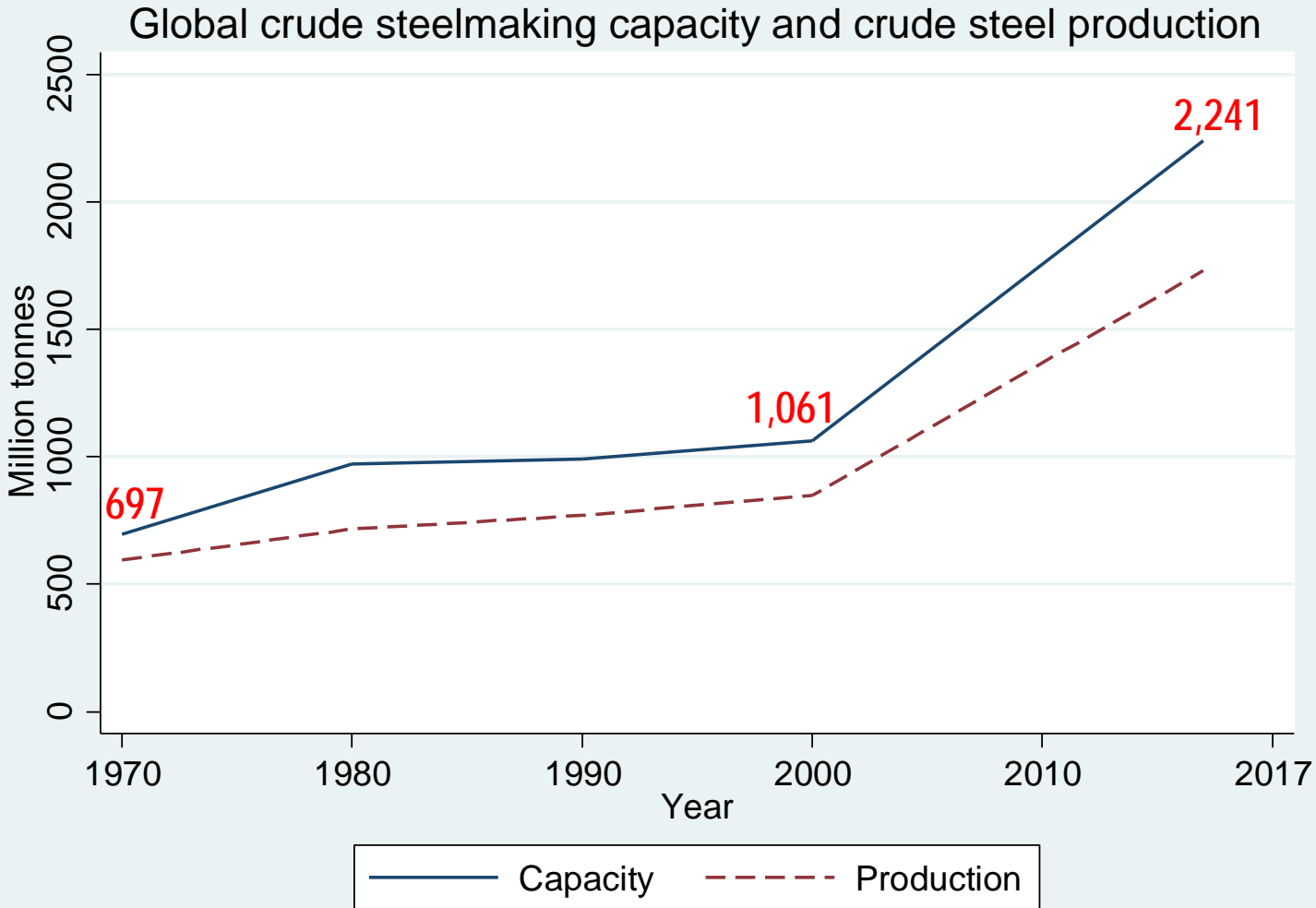


The global steel industry needs the
GFSEC to address **unprecedented** level
of **excess capacity**



Global steelmaking capacity has **grown significantly** since the beginning of 21st century

Unprecedented level of excess capacity (1)

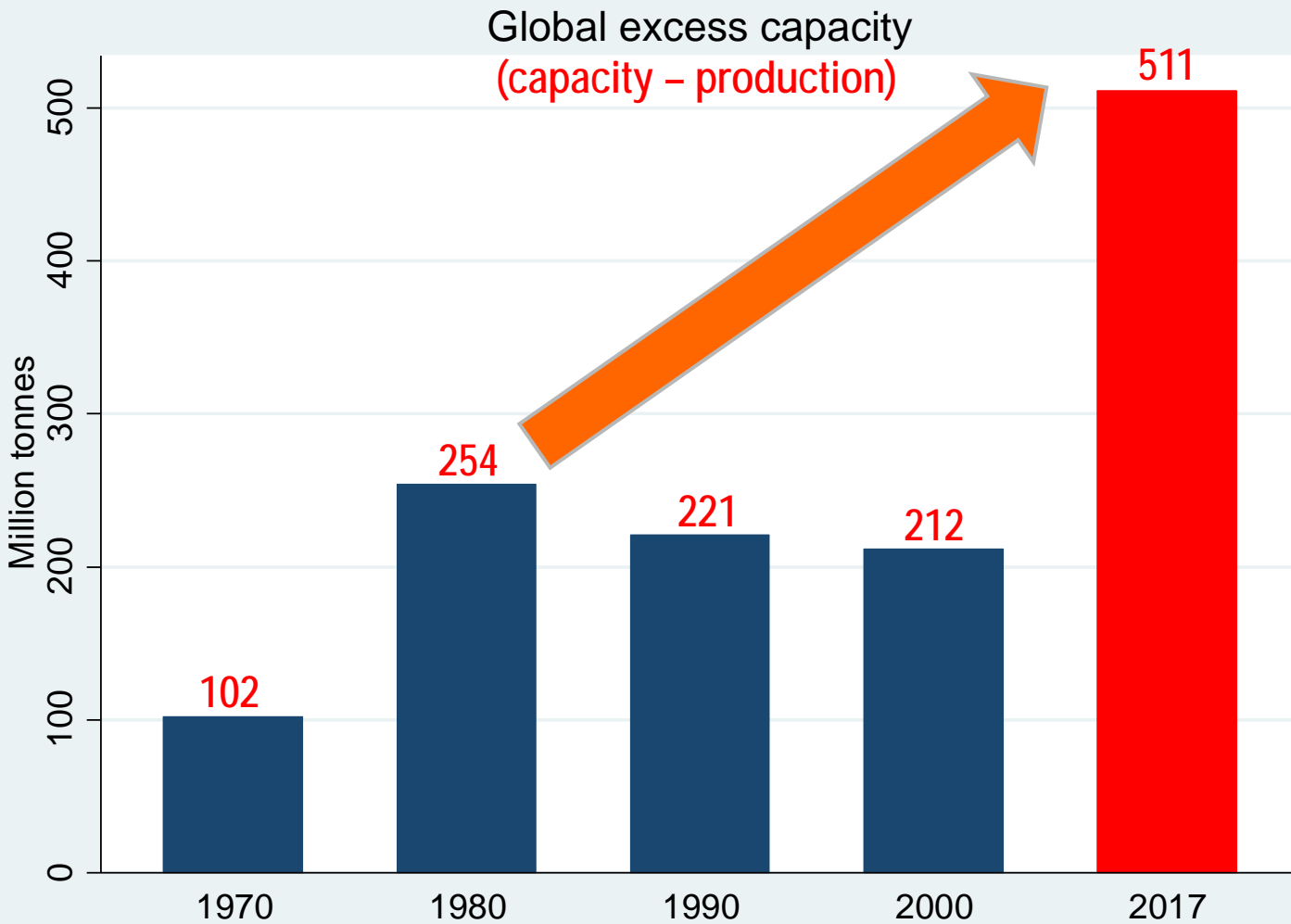


Source: Stahl and OECD for capacity and worldsteel for production



The global steel industry has seen **unprecedented level of excess capacity**

Unprecedented level of excess capacity (2)

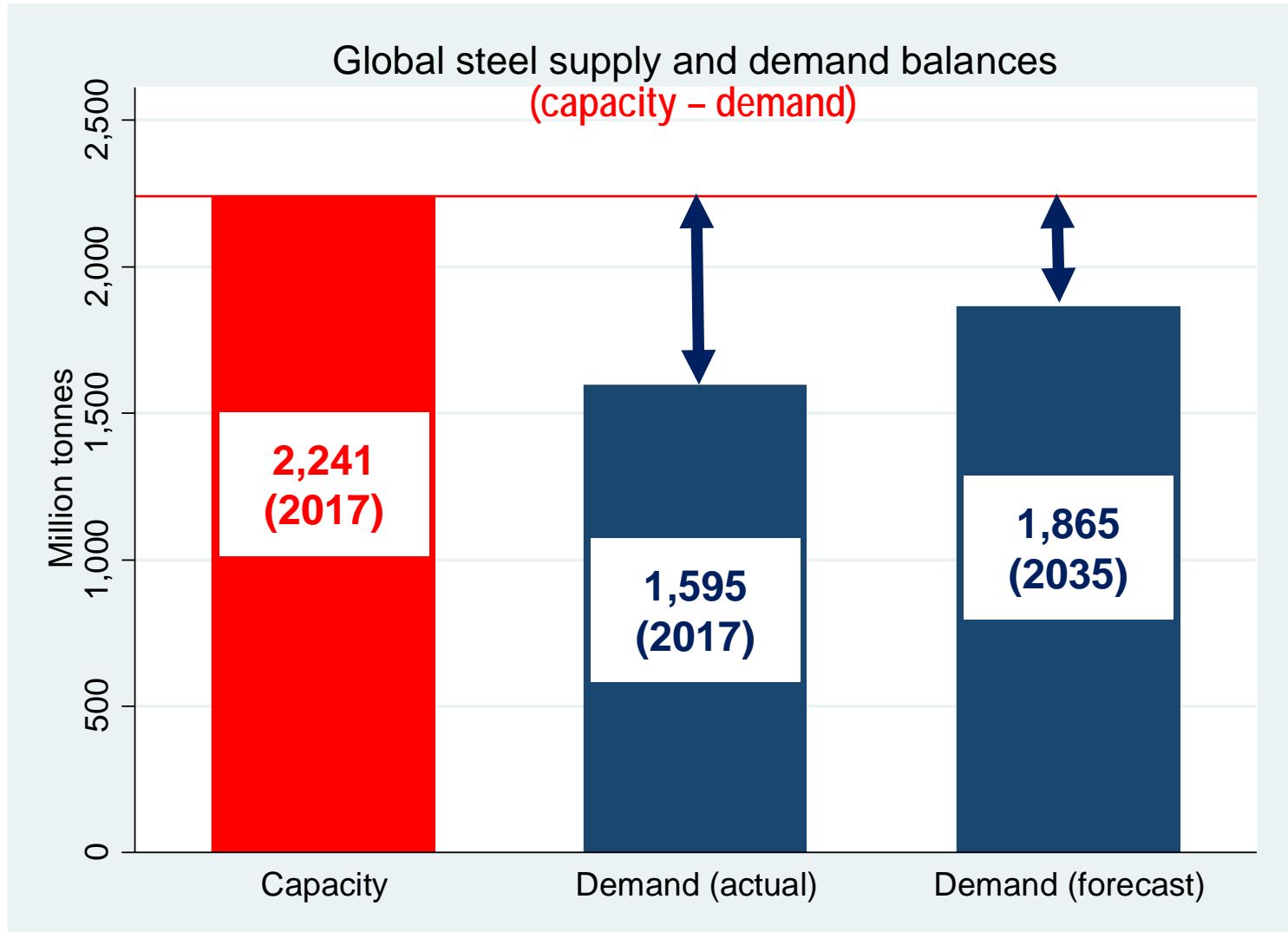


Source: JISF calculation based on data from Stahl, OECD and worldsteel



Global steel demand is likely to **remain well below** the current level of global steelmaking capacity

Global steel supply and demand balance



Source: OECD and worldsteel



Possible worst case scenarios



- Overoptimistic forecast of future steel demand and consequent excess investment during a high economic growth phase
- Not demand-pulled, but supply-driven capacity building brings huge excess capacity



The GFSEC has played a vital role in the global steel industry

The GFSEC has played a vital role at three levels:

1. *To increase transparency in **monitoring capacity***
2. *To identify market **distorting measures** and develop **best practices***
3. *To facilitate **information exchange** functions as the **only multilateral forum***



The Japanese steel industry

- shares the global steel industry's desire for further actions to avoid the recurrence of vast excess capacity, and
- calls for the leaders of G20 countries to extend the mandate of GFSEC beyond 2019.



Thank you for your attention