Global Forum on Steel Excess Capacity

Working-Level Meeting

Lessons Learned and Past Experiences with Steel Industry Restructuring

Paris, 28 March 2019
Stages in European Steel Restructuring History

1975
- Peak in steel demand
- Stagnation → excess capacities → losses → national subsidisation
- Davignon Plan II (1980 - 1985): excess capacity reduction → utilisation rate increase → profitability (strict control and enforcement Commission/European Court of Justice)

1985
- Full privatisation
- Strict discipline on subsidies at EU level
- Aid for investment, regional development, rescue/restructuring forbidden, closure aid (ECSC State Aid Code)

1995
- Restructuring Central EU Steel Industries
- Same mechanism applied to acceding Member States to restore viability under normal market conditions and ensure overall capacity reduction

2004
- From a nationally based industry to major steel groups (but still much less concentrated than its suppliers/customers)
- Aid for investment, regional development, rescue/restructuring forbidden, closure aid (ECSC State Aid Code)

2019
- Since 2008 net capacity reduction of 11 million tonnes (5%), 85,000 job losses (20%)
Steel demand peaked around 1973
Weak demand partly offset by higher exports (ca. 25% of ASC)
Overcapacity, with utilisation rate declining to around 65%
Accumulated losses of ECU 3 billion ($3.4 billion) in 1977 (ca. $25/t)
Highly fragmented industry
National interest in maintaining capacity, investment, production and labour
Limited power of European Community

* source: E. Davignon, Restructuring of the European Steel Industry, OECD Symposium, 18 April 2016
• Capacity was reduced by almost 20% (ca 40 mt within 5 years) resulting in significant improvement of the utilization rate
• As a consequence, profitability recovered dramatically

* source: E. Davignon, Restructuring of the European Steel Industry, OECD Symposium, 18 April 2016
In 1980, Europe's five largest steel companies accounted for 30% of steel production in the EU. By 2008, the top five accounted for more than 60%.
Lessons learned from European Steel Restructuring History

- Government policy was instrumental to induce market-driven restructuring and consolidation of privatised companies through M&A.

- Individual governments need to specifically commit to facilitate the elimination of excess capacity; in particular, to alleviate exit barriers for plant closures.

- Capacity reductions to be set at a sufficiently high level (at least 20% reduction) – a fundamental condition for sustainable profitability over the cycles. Do not postpone necessary reductions—it will make the inevitable restructuring more painful. Cut should take place swiftly—but the effects of restructuring take time.

- Critically, governments should develop domestically binding, enforceable and transparent state aid prohibitions related to capacity build up and operation, as well as a robust competition policy.

- Use conservative demand projections to avoid future excess capacities.

- Whatever the policy mix, market-based restructuring is the only sustainable solution—based on strict elimination of market distorting subsidies and support measures that contribute to overcapacity.