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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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

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

Periods of Japan's structural adjustment

<table>
<thead>
<tr>
<th>Period</th>
<th>Background</th>
<th>Objective</th>
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<tbody>
<tr>
<td>I. 1973-1984</td>
<td>• Two oil crises (1973 and 1979) • End of high economic growth</td>
<td>Structural improvement (transformation from volume to value)</td>
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<td>II. 1985-1991</td>
<td>• Plaza Accord (1985) and <strong>sharp yen rise</strong></td>
<td><strong>Business rebuilding</strong> (diversification)</td>
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<td>III. 1992-2003*</td>
<td>• <strong>Lost decade</strong> after the bubble burst • Stagnation of domestic industries and transfer of production overseas</td>
<td><strong>Drastic structural rebuilding</strong>* (selection and concentration)</td>
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* 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!*

<table>
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<tr>
<th>Type of firms</th>
<th>Key feature</th>
<th>Similarity</th>
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<td>Integrated firms (BF/BOF)</td>
<td>Voluntary corporate initiatives</td>
<td>• Special fund for employment adjustment</td>
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<td>EAF firms</td>
<td>Policy intervention</td>
<td>• Employment adjustment without layoff</td>
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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
Overview of 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.

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.

Labour productivity (crude steel output/worker) has increased by approximately four times since 1970!
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

**Impact on individual steel firms’ production activities**
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
• 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 the 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.
Global steel demand is likely to remain well below the current level of global steelmaking capacity.

Global steel supply and demand balances (capacity – demand)

- **Capacity**: 2,241 million tonnes (2017)
- **Demand (actual)**: 1,595 million tonnes (2017)
- **Demand (forecast)**: 1,865 million tonnes (2035)

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 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