EUROFER
The European Steel Association

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

1975–1985: ACTIVE ECSC STEEL POLICY

- 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)

1985–1995: PRIVATISATION & START CONSOLIDATION

- Full **privatisation**
- **Strict discipline on subsidies at EU level**

- **Aid** for investment, regional development, rescue/restructuring **forbidden, closure aid** (ECSC State Aid Code)

1995–2004: RESTRUCTURING CENTRAL EU STEEL INDUSTRIES

Same mechanism applied to acceding Member States to restore viability under normal market conditions and ensure overall capacity reduction

2004–2019: MARKET-DRIVEN RESTRUCTURING & CONSOLIDATION

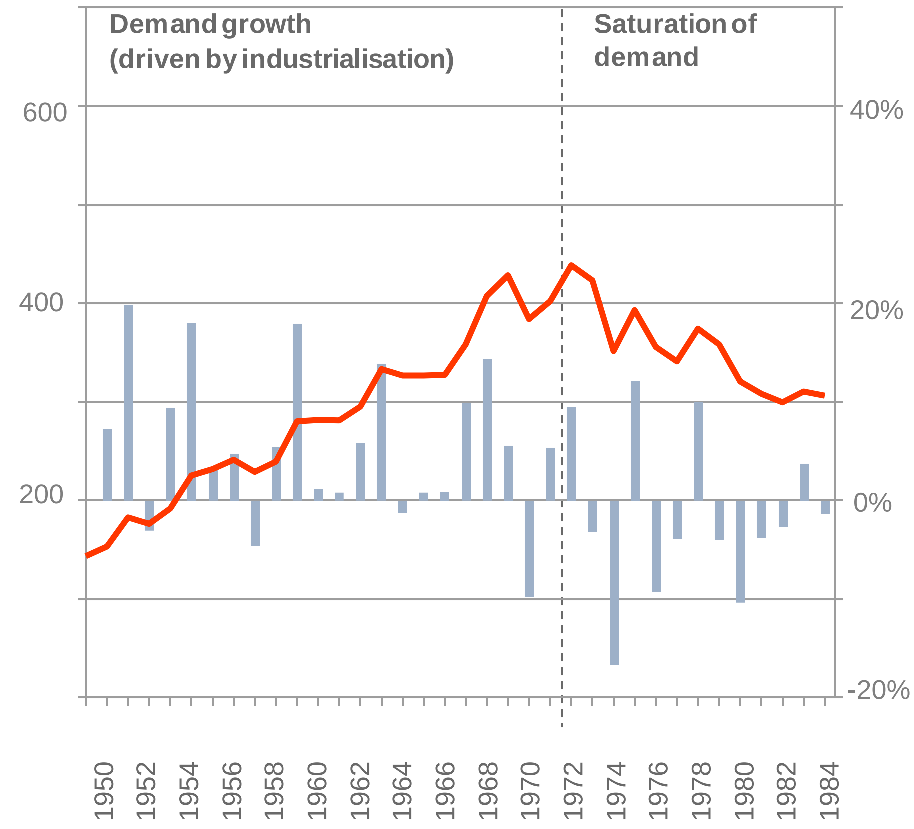
- From a nationally based industry to **major steel groups (**but still much less concentrated than its suppliers/ customers**)**

- Since 2008 net **capacity reduction** of 11 million tonnes (5%), 85,000 **job losses** (20%)

Active ECSC Policy (1975 – 1985)

- 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

Europe (EU15) - crude steel consumption
kg/capita (LHS), yoy growth % (RHS) *

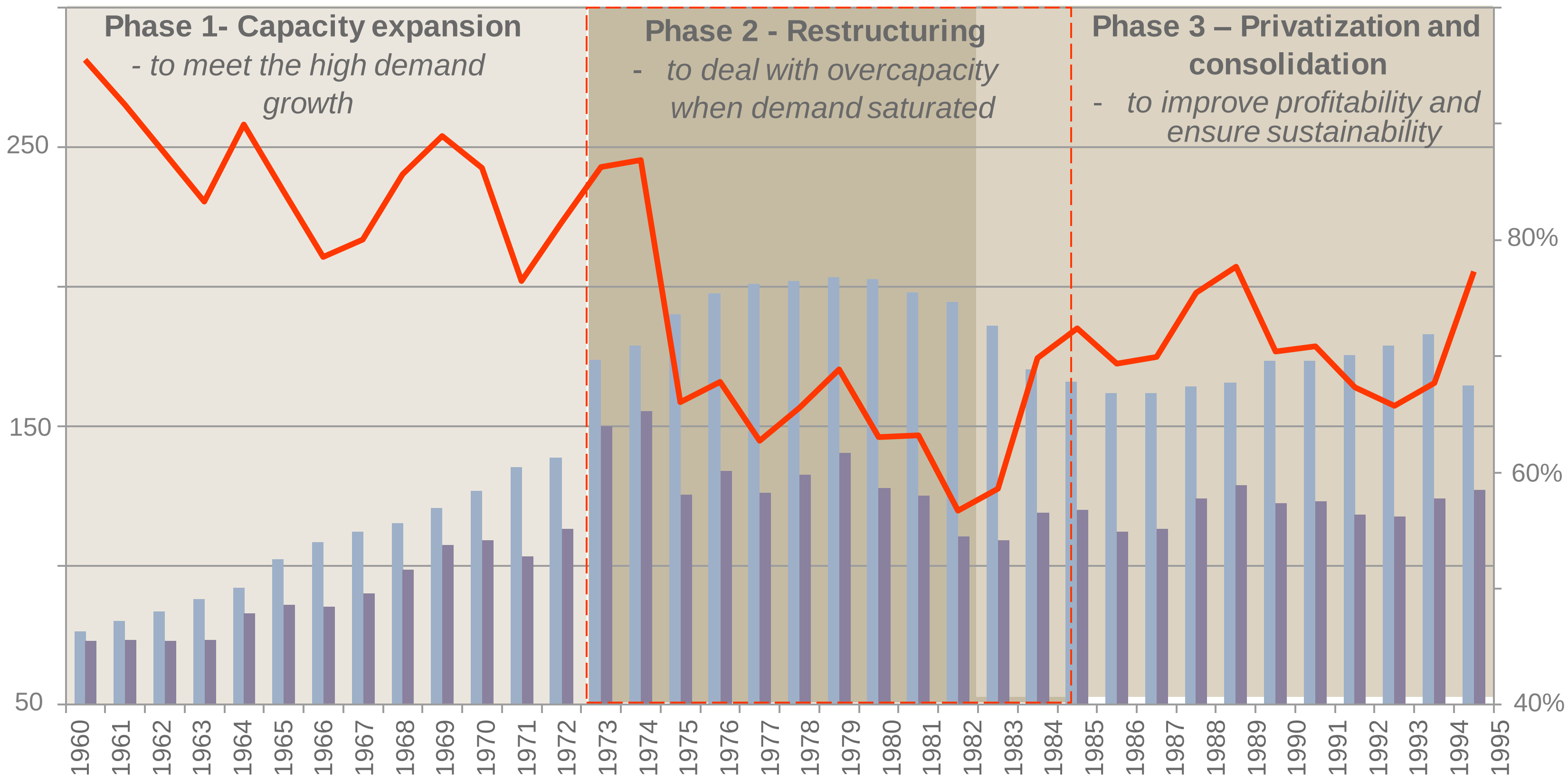


* source: E. Davignon, Restructuring of the European Steel Industry, OECD Symposium, 18 April 2016

Active ECSC Policy (1975 – 1985) …cont.

- 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

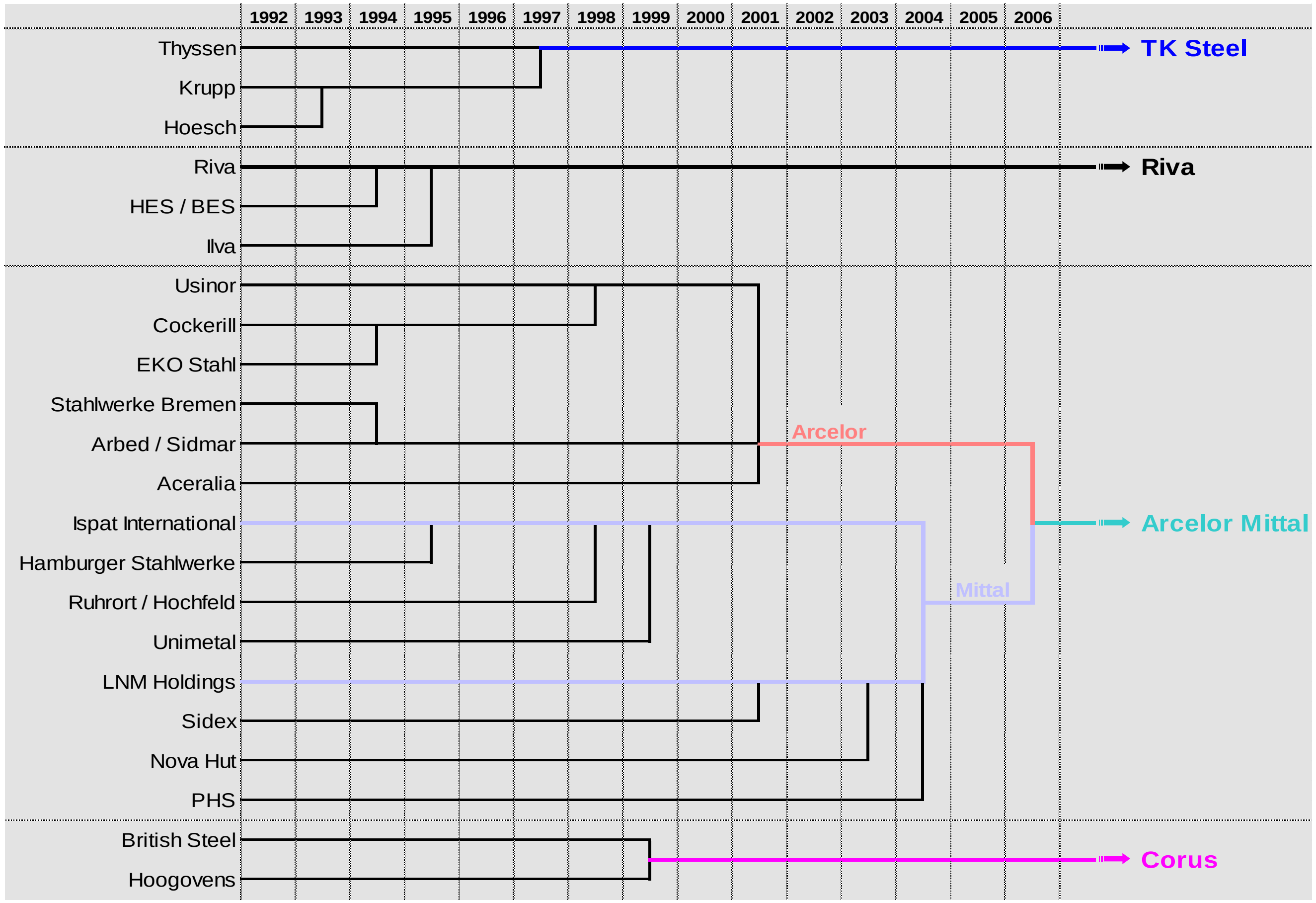
Europe EU9 - production, capacity and utilisation rate (million tonnes, %)*



* source: E. Davignon, Restructuring of the European Steel Industry, OECD Symposium, 18 April 2016

Market-driven EU Steel Consolidation Ongoing

- 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%.



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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.**