



GFSEC stakeholder workshop

**Financing steel projects in Eastern Europe:
Lessons from Recent History**

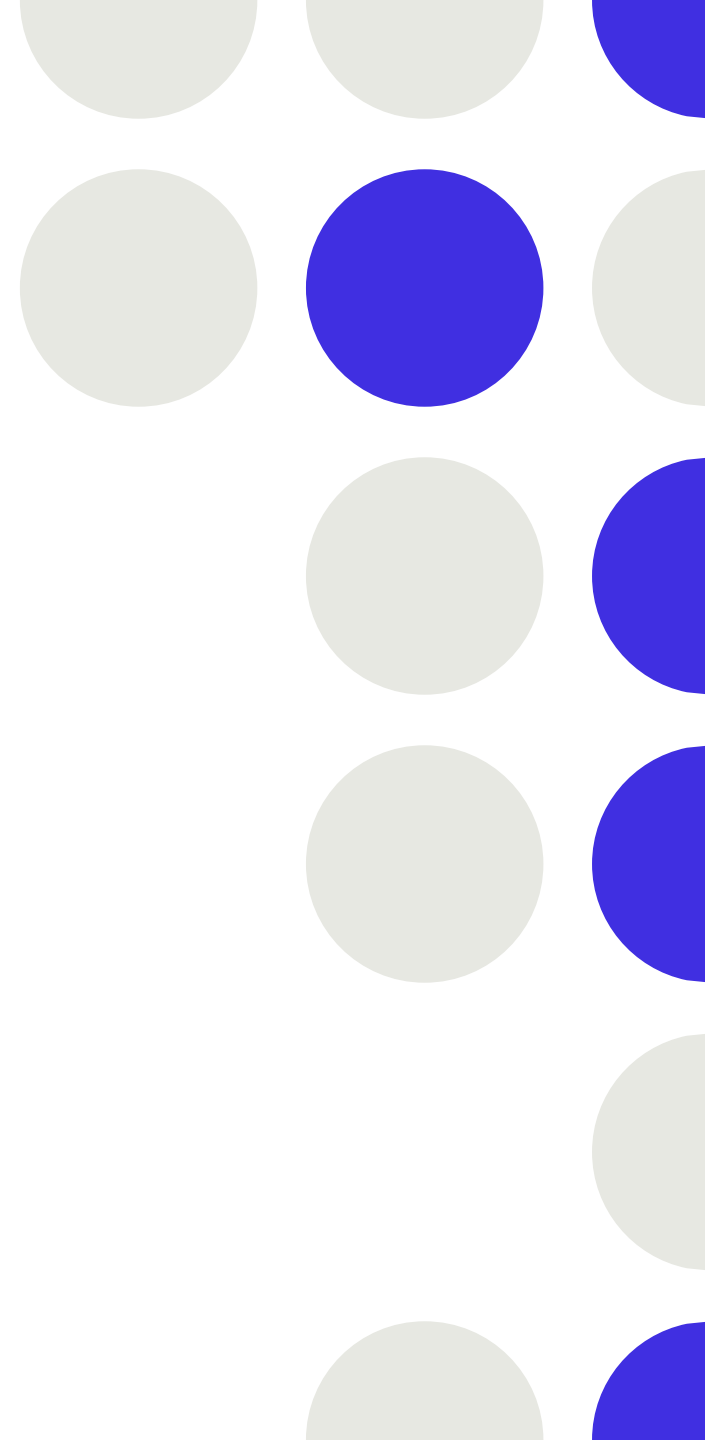
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Financing as a lever to transform the steel industry

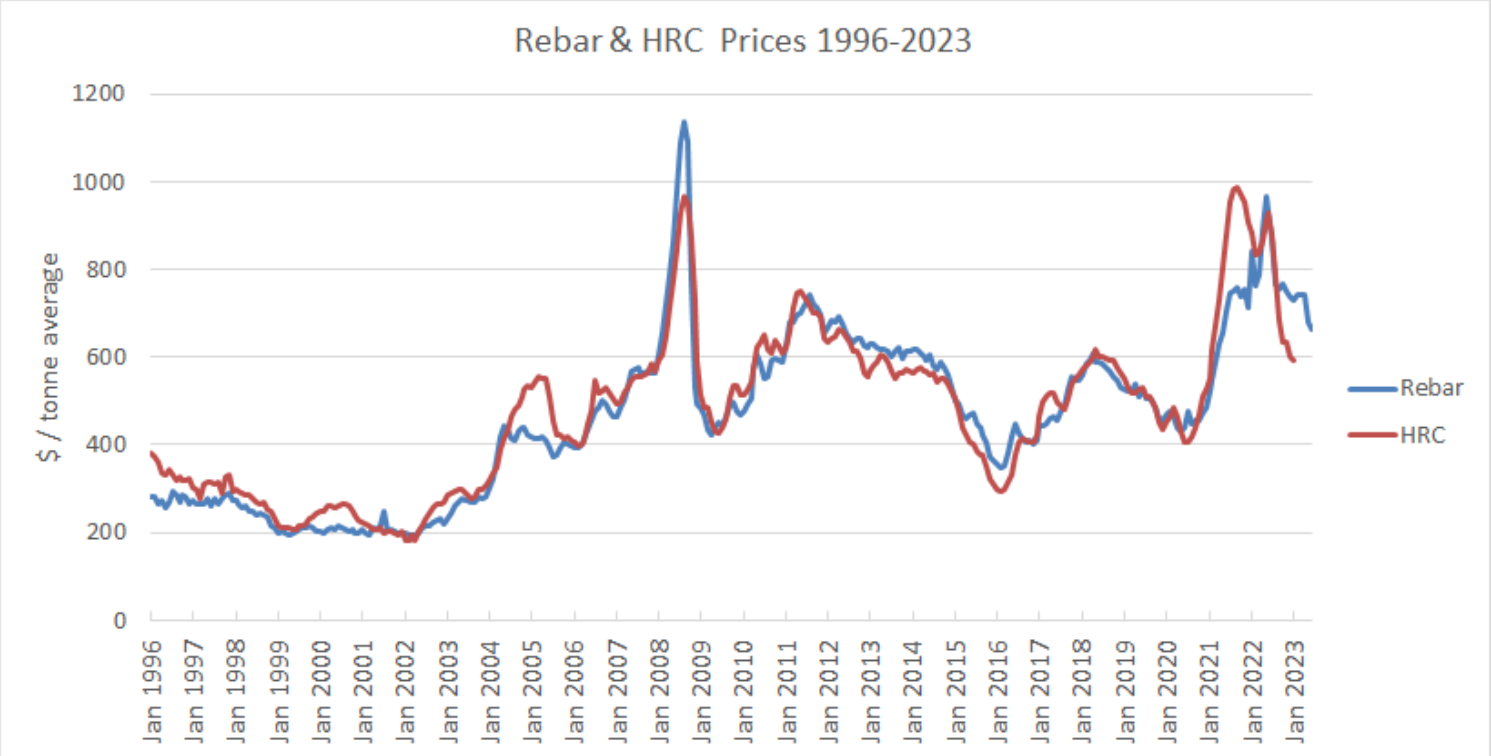
- **Transforming** the steel industry will require **bold actions** from various stakeholders. Decarbonisation of the industry is one of the main challenges. This will include the scaling up of new capex to replace existing facilities, higher opex, and higher costs of low-carbon steel. This will require international collaboration, including involvement of governments both to regulate in their domains and to ensure that trade action is sufficiently robust to ensure that non-compliant imports do not undermine the process.
 - Most major steel companies today are **quite profitable** at current margins, and in principle are seen as attractive targets for more bank finance. But, as incumbents, they may need some external pressure to **adjust their existing business model** and to invest in “low-carbon steel”. The problems are both (i) the potential impact of the steel cycle (see chart 4) which regularly, but unpredictably, reduces profitability and cash flow and (ii) the sheer scale and speed of investment required; hence the need for market-conform subsidies.
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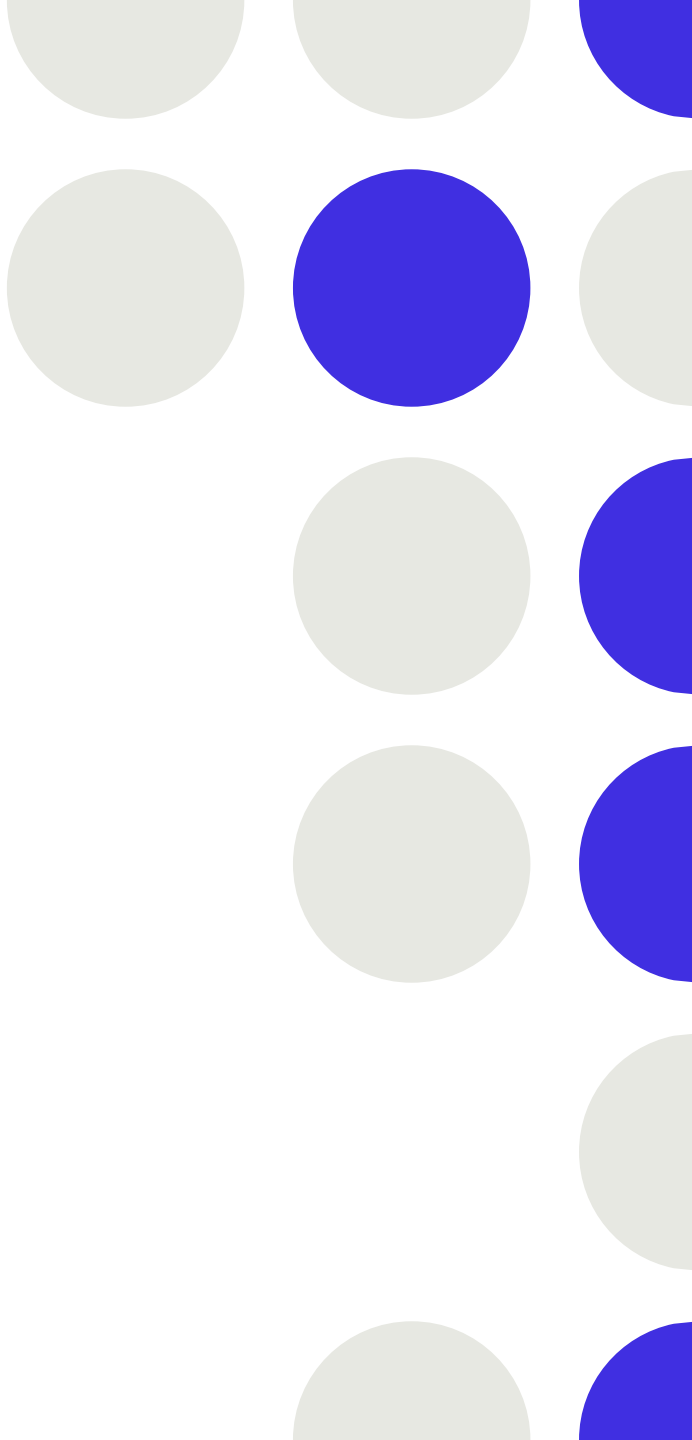
Financing as a lever to transform the steel industry

- The impact of the steel cycle on steel industry profitability and competitiveness could, at any point, be worsened by a surge of imports from low cost countries (as in 2015 from China).
 - Increased excess steel capacity would jeopardise new financing. If it added to the danger of such a surge in imports, countries may be forced to adopt additional trade measures. Existing profitable companies should then be able to attract financing within their own strategic frameworks to produce higher cost decarbonised steel - unless over-indebted for other reasons.
 - There could also be major new entrants in hydrogen-based iron-making, from the energy sector.
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The Steel Cycle

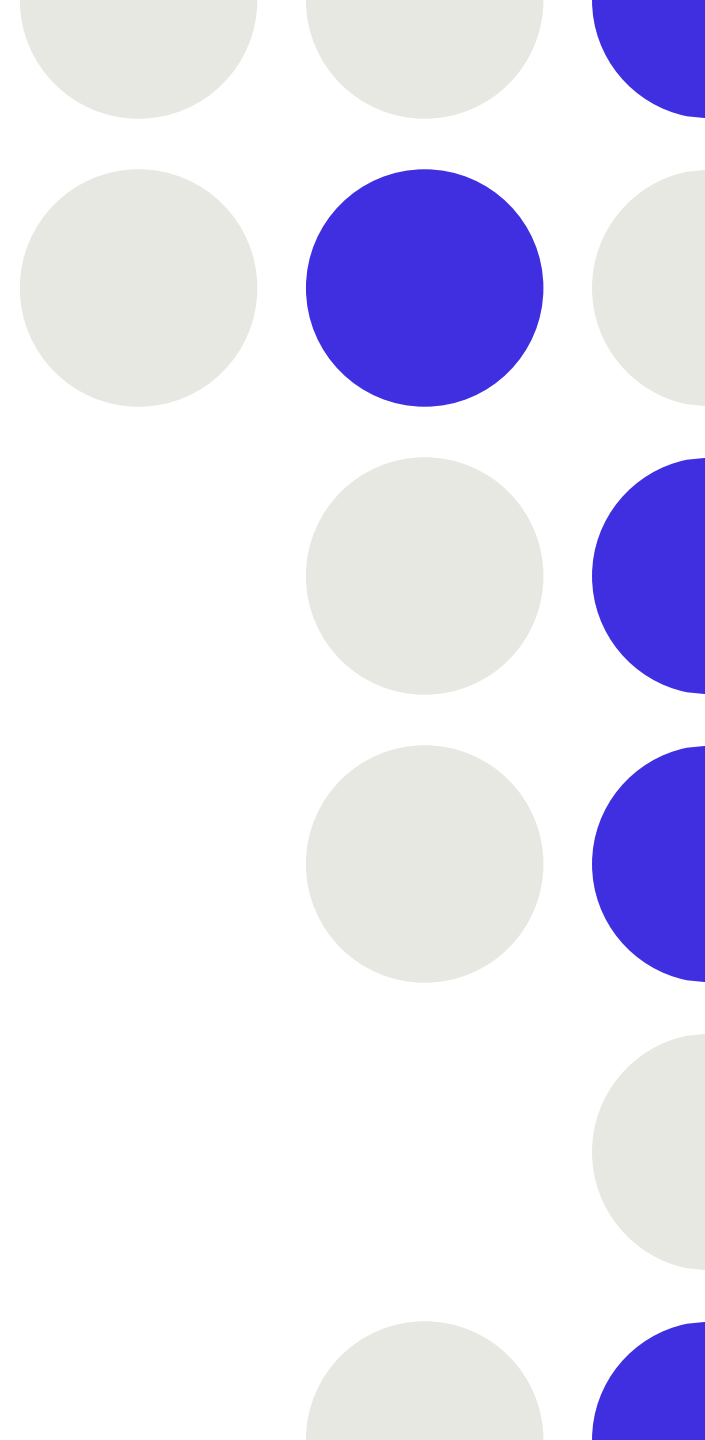


Source of data: ISSB



Excess steel capacity and EBRD experience

- **In general** EBRD steel financing has **not been inhibited** by excess global steel capacity. Thus it has contributed 25 years of support for ArcelorMittal, through a series of steel cycles, starting in 1997 in Kazakhstan, continuing in 2001 in Romania, and in 2007 in Ukraine. Meanwhile near the top of the cycle in 2007 Mittal group agreed to buy Arcelor for USD33bn, funded by long-term debt.
 - From 2006 EBRD created large loans to two major Russian steel companies, to contribute to their capex for energy efficiency.
 - EBRD did **experience** the impact of local steel overcapacity with Celsa Poland in 2008, when imbalance of steel supply and demand squeezed the domestic industry, exacerbated by imports. Loans and loan **repayments** had to be **extended** over time.
 - EBRD has never had the opportunity to finance the closure of obsolete facilities within policies designed for a “just transition”. Yet, it remains important to let inefficient facilities exit the market.
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Take-aways from the past as guidance for the future

- Transforming the steel industry and ensuring its long-term viability requires effective **international collaboration** on regulatory and trade issues.
 - It will be carried out mainly by the most **effective and viable steel companies**, who have no choice if they are to maintain their businesses and their competitiveness in an era of “low-carbon steel”
 - Without this collaboration **financing** will be difficult and may be impossible. With this, the radical changes required should be achievable over time.
 - Climate finance, blended with EBRD/MDB and commercial financing, can create incentives for decarbonisation capex, in particular in countries outside the EU and the US (where subsidies are less available). This is needed to achieve the globe’s climate targets. However, financial providers should **refrain from adding more capacity** that is not met by market demand.
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