BENEFITS OF REDUCING STEEL EXCESS CAPACITY

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Demand for steel is slowing …

• The current steel demand situation weaker than expected
  – Slowdown in economic growth
  – High inflation and interest rates weigh on steel demand

• Recent forecasts suggest very limited demand growth in the long term:
  – Material efficiency and re-use of steel
  – Lower steel intensity per GDP – moving from volume to value
  – Effects of the downturn in the Chinese real estate sector
  – Demographic trends, urbanisation rates, home ownership rates

* Bright spot: the green transition will support the demand for steel
Capacity additions are **accelerating**, mostly in technologies that **emit higher CO2 on average than other technologies**

Current trends will **increase the gap between capacity and demand** further

This could create a **flood** of relatively **high-carbon steel exports** in international steel markets in the next few years

With a squeeze of steel firms margins and **profitability**, as has been the case historically

Other factors such as **higher input and borrowing costs** will exacerbate the pressure

All of this with a background of a weak global economic environment – **risk of a steel crisis**!

Potentially leading to **increased market-distorting subsidisation**, leading to a worse outcome

And rise in **trade frictions** between trading partners
…leading to further rise in excess capacity towards past peak levels

Sources: Demand from worldsteel, capacity from the OECD. Demand scenario based on worldsteel’s April 2023 SRO and CRU for later years; Capacity scenario based on steel capacity investment data by the OECD.
Global excess capacity is bigger than the entire GFSEC steel capacity …

GFSEC steel production

79 mmt

Global excess capacity, 570 mmt
...and the problem is getting worse...

- **Southeast Asia, India** and the **Middle East** are now the centres of global capacity growth.
- **Exporting of capacity and carbon** steel industry has accounted for 73% of global capacity growth since 2000 but its growth model is shifting.
- Growth in **capacity much higher than demand** in most of these economies leading to massive oversupply.
- Non-GFSEC countries send 40% of their steel exports to GFSEC members: **severe impacts on GFSEC steel industries**

![Map showing steel capacity growth](image)

**2023-2025**

- Chinese FDI to ASEAN, mostly by SOEs: +39.2 mmt
- Joint ventures with Chinese steel companies in ASEAN: +19.3 mmt

Together accounting for 71% of the 166 mmt of global new capacity.

**After 2025**

169 mmt
Capacity is being driven higher by market distorting and high-carbon investments

**Observed trends outside of the GFSEC:**

- Government subsidies, soft loans, raw material export restrictions and other distortive interventions are driving capacity growth.
- Including foreign investments by SOEs which tend to be heavily subsidised.
- High CO2 intensity of excess capacity:
  - 85% of the new capacity additions in developing Asia are based on a production technology that emits 2.32 tonnes of CO2 per tonne of steel produced on average (compared to 0.67 and 1.65 tonnes of CO2 for other production methods).
  - 89.4% of Chinese steel production is currently based on that same emission-intensive production method.

**Result:** Distorts markets and competition, raises the sector’s emissions and reduces the viability of steel industries.
Global excess capacity leads to excess emissions and wasteful energy and scarce raw materials.
Reducing excess capacity would boost the economic viability and sustainability of the steel industry

1. Reducing steel oversupply leads to higher steel prices and improves the profitability of the steel industry

2. Allows more resources for steel firms to innovate and replace high-emitting plants with low-carbon facilities

3. Less waste of energy and critical raw materials that the industry needs

4. More stability in steel trade and improved trade relations amongst steel trading partners frictions
Global excess capacity hurts the profitability of steel firms worldwide…

Source: Refinitiv.
Excess capacity is taking place in a changing global context

• More economic and geopolitical uncertainty
  – Energy crisis
  – Steel supply chain uncertainties
  – Critical raw material issues (vulnerabilities and risks)

• The nature of excess capacity is changing
  – Carbon intensity of excess capacity is growing
  – Excess capacity shifting along the value chain

• A significant share of the investments are also concentrated in the BF/BOF production method in countries with net zero commitments beyond 2050.
Need more awareness and collective action to reduce excess capacity

Reducing excess capacity leads to:

- Increases the **profitability margins**, which would accelerate investments in low-carbon steel plants
- This **speeds up the transition** to global net-zero
- Leads to more **stability** in trade relations

How we do it is important:

- The **low-carbon** transition is an opportunity, yet should not add to net capacity levels (not only carbon intensity but level of capacity should decline)

Enhance **international dialogue** in a world that risks to become more fragmented
Thank you for your attention

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