

GLOBAL FORUM ON STEEL EXCESS CAPACITY

MINISTERIAL REPORT 20 SEPTEMBER 2018

1. INTRODUCTION

1. A driver of industrialisation, the steel sector plays an important role in connecting economies through its central position in global value chains. Steel is an essential material used in virtually all manufacturing sectors and construction applications. With more than 90 countries producing a combined 1.6 billion tonnes of crude steel annually, few challenges have more global impact than those facing the steel sector.

2. Excess steelmaking capacity – a global challenge that continues to plague the sector – creates significant difficulties for steel producers in advanced, emerging and developing economies alike. While steel market conditions have shown some cyclical recovery in 2017, the underlying trend in global steel demand remains weak and excess capacity remains significant. The situation became particularly acute in 2015. It depresses prices, undermines profitability, generates damaging trade distortions, jeopardizes the very existence of companies and branches across the world, creates regional imbalances, undermines the fight against environmental challenges and dangerously destabilizes world trading relations. It especially undermines income opportunities of employees.

3. Addressing excess capacity is a necessary condition for more stable, profitable and sustainable business and employment conditions, which allows the industry to face a number of long-term challenges more effectively and to continue investing towards value creation by adjusting to fundamental changes in economic activity brought on by the “next production revolution”. If the steel industry is to continue to invest towards value creation, it will require significant reductions in excess capacity and a return to sustained profitability.

4. The dimension and depth of excess capacity implies it is no longer simply a cyclical issue to be tackled as “business as usual”. Curbing excess capacity and building a well-functioning, open, competitive, efficient, stable and transparent environment is a core challenge of our time - for the steel sector and beyond, as expressed in the Hangzhou and Hamburg Summits. This report focuses on the steel sector.

5. Recognising the serious problem of excess capacity in the global steel industry, G20 Leaders called for the formation of a Global Forum on Steel Excess Capacity (GFSEC) at their Summit on 4 and 5 September 2016, in Hangzhou, to increase information sharing and cooperation. The Global Forum on Steel Excess Capacity was formally established on 16 December 2016 in Berlin. The Global Forum brings together 33 member economies (all G20 members and interested OECD members), representing around 90% of global steel production and capacity.

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6. In line with G20 Leaders' call for increased information sharing, the Global Forum established an information-sharing mechanism in early 2017, to exchange information on crude steel capacity developments and government policies affecting excess capacity, including market-distorting subsidies and other government support measures. Following the commitments by G20 Leaders at the July 2017 Hamburg summit, the GFSEC then moved to the urgent task of developing concrete policy solutions to alleviate excess capacity in the steel sector. At their 30 November 2017 ministerial meeting in Berlin, GFSEC member economies approved a substantive report (hereafter the Berlin Ministerial report) with concrete guiding principles and specific policy recommendations for governments (see Boxes 1 and 2 at the end of this section and annex 1). These are the basis for the tangible and swift policy action to address excess capacity in the steel sector that G20 Leaders specifically called for in Hamburg. Implementing the agreed principles and recommendations is a key priority for the Forum's work in 2018, and reflects the collective resolve of GFSEC members not simply to mitigate in the short term, but to structurally eliminate the scourge of excess capacity.

7. In the spirit and letter of the Berlin Ministerial report and, in particular, of Principle VI, the Argentinean Chair held a new round of information sharing, assessment and review which took place between February and May 2018, focusing on the identification of market distorting subsidies and support measures that contribute to excess capacity and the remaining policy recommendations included in the Berlin Ministerial report¹. While much work remains and important information is still to be provided by some members, the assessment and review process has helped identify whether practices fall under the purview of paragraph 57 of the Berlin Ministerial report and should therefore be earmarked for time-bound elimination. This has been the core objective of the GFSEC in the first half of 2018. The meetings to date have also highlighted limitations in the information sharing, which have to be addressed in order for the GFSEC to fully meet its objectives.

8. The improvement in steel market conditions now taking place provides a unique window of opportunity to address excess capacity, and market distortions that result in excess capacity and contribute to trade frictions. Indeed, the modest upturn in global demand together with a slowdown in capacity growth in recent years has helped to reduce the gap between world steel demand and capacity recently. However, with forecasts for long-term global steel demand growth in the 1% per annum range the adjustment process will be very lengthy in the absence of more concerted efforts to reduce capacity.²

9. Without delay, governments should fully seize the opportunity of the temporary relief in the steel market conditions to address excess capacity and the underlying causes of excess capacity in the steel industry and prevent its re-emergence in the future. Swift and tangible actions that encourage industry restructuring, remove market-distorting subsidies and other governmental support measures that contribute to excess capacity, enhance the role of market forces in determining the competitive outcomes in the steel industry and fostering a level-

¹ Under the aegis of the Chair a second round of information sharing was launched in the beginning of July 2018 and is still on-going. Members were invited to complete and update answers to the questionnaire for information sharing and ensure that the 2014-2017 period is covered. This report is not based on the data from the second round which has not yet been reviewed. Once the exercise is complete, the information and updates provided will be discussed by the Global Forum.

² The world's steelmaking capacity, according to the most recent OECD figures, stood at 2 267.8 million tonnes in 2017 (see <http://www.oecd.org/industry/ind/84-oecd-steel-chair-statement.htm>). Steel demand, according to the World Steel Association's April 2018 Short Range Outlook, amounted to 1 587.4 million tonnes in 2017 (see <https://www.worldsteel.org/media-centre/press-releases/2018/worldsteel-short-range-outlook-april-2018.html>).

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playing field in the steel sector are essential to resolve excess capacity in a structural manner – in accordance with Principle II, III and IV of the Berlin Ministerial Report. Neither the steel sector, nor the world economy, can afford to repeat the costly mistakes of the past—losing the political impetus to genuinely tackle excess capacity as soon as cyclical upturns kick in. This can only spell intense disruptions at the next downturn with significant social, economic, and trade and political consequences at the local, regional, and global level. It is our common responsibility to avoid them.

Box 1. Six principles that guided the development of policy solutions to reduce excess capacity

1. Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies and effective policy solutions to enhance the market function and reduce steel excess capacity. To support these, Forum members may set and publish goals, if appropriate.
2. In order to ensure that the steel market operates under market principles, governments and government-related entities should refrain from providing market-distorting subsidies and other types of support measures to steel producers. These include subsidies and other government support measures that sustain uneconomic steel plants, encourage investment in new steelmaking capacity which otherwise would not be built, facilitate exports of steel products, or otherwise distort competition by contributing to excess capacity.
3. Irrespective of ownership all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive directly or indirectly subsidies or other type of support that distort competition by contributing to excess capacity, and should follow the same regulations with economic implications and rules, including bankruptcy procedures. A level playing field should be ensured among steel enterprises of all types of ownership. Global Forum members should also continue to fight protectionism including all unfair trade practices while recognising the role of legitimate trade defence instruments in this regard.
4. Open and competitive markets and a market-driven approach to resource allocation based on the competitive positions of steel enterprises should be the driving forces of the steel sector. New investment, production and trade flows should reflect market-based supply and demand conditions.
5. Wherever excess capacity exists, governments have a role in advancing policies that facilitate the restructuring of the steel industry while minimizing the social costs to workers and communities. Governments should ensure conditions exist for market based adjustment, by facilitating the exit of consistently loss-making firms, “zombie” firms, obsolete capacity facilities and firms not meeting environmental, quality and safety standards. This would lead to a net reduction of capacity.
6. Recognizing that collective policy solutions and transparency are vital for market-based responses by the industry to changing conditions in the steel market, governments should on a reciprocal basis increase transparency through regular information sharing, analysis, review, assessment and discussion as well as regular exchanges about data and concrete policy solutions, among the members of the Global Forum. Governments should ensure that any relevant information on steelmaking capacity developments; supply and demand conditions as well as policy responses including support measures by governments and government-related entities is available on an on-going basis. Members should exchange information on the nature and extent of export credit agency support for new steel projects. The Global Forum will report to the G20 and to interested OECD countries being member of the Global Forum on progress.

Source : Report of the Global Forum on Steel Excess Capacity approved on 30 November 2017 in Berlin

Box 2. Policy recommendations

a) Framework conditions

1. Members should consider the extent to which their framework conditions and institutional settings ensure proper market functioning and policy objectives consistent with the need for reducing global excess capacity.
2. Particular attention should be given to ensure that: i) competition law, trade and investment policies, and other policies foster a level playing field for competition among companies irrespective of ownership, both domestically and internationally; ii) bankruptcy legislation is effective and procedures are expedited efficiently; iii) the internal financial market

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is able to price risk and deal with non-performing loans; iv) labour markets and social security systems adequately support adjustment, v) different levels of government do not have conflicting policy objectives and, vi) Procurement policies should not contribute to excess capacity.

b) Market distorting subsidies and other support measures by government or government-related entities

1. Members should remove and refrain from adopting market-distorting subsidies and other support measures provided by governments and government-related entities that encourage companies to undertake capacity expansion projects, maintain consistently loss-making or uneconomic steel plants in the market, or which otherwise distort the market.
2. All Members should expeditiously share data on market-distorting subsidies and other support measures by government or other government related entities. The proper implementation of subsidies and other support measures that facilitate permanent closures of steel facilities should be carefully analysed and follow strict guidelines.
3. Governments should remove and refrain from market-distorting subsidies and other support measures by government or government-related entities that contribute to excess capacity.
4. Governments may encourage innovations in the steel sector and implementation of best available technologies among steel producers irrespective of ownership insofar as this does not distort competition and contribute to excess capacity.

c) Fostering a level-playing field in the steel sector

1. Irrespective of ownership, all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive subsidies or any other types of support that distort competition by contributing to excess capacity.
2. All enterprises acting in a country's steel market should follow the same rules and regulations with economic implications, including bankruptcy procedures.
3. A level playing field should be ensured among steel enterprises of all types of ownership.

d) Fostering industry restructuring by assisting displaced workers

1. Governments should favour active labour market policies which maintain and increase the employability of workers who are dismissed as a result of the restructuring.
2. Employment adjustment measures are an important instrument for addressing the social cost of restructuring. This should be provided as support to workers and should not constitute subsidisation to companies, which could maintain existing capacities in place.
3. The specific needs of older workers and other disadvantaged groups affected by restructuring should be taken into account to facilitate their transitioning into alternative occupations.
4. The effectiveness and efficiency of the measures should be evaluated.

e) Government targets

1. Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies. To support these, Global Forum members may set and publish goals, as appropriate, to reduce excess capacity through legal and market methods. Capacity reduction targets should be accompanied by actions to eliminate policies that contribute to excess capacity, such as market-distorting subsidies and other types of support by government or government-related entities.
2. The criteria for capacity reductions should, irrespective of ownership, simulate the process of market selection with consistently loss making or non-environmentally compliant firms being forced to exit the market. Ex post assessments of whether this is the case should be undertaken.
3. Government objectives to increase capacity should not be accompanied by market-distorting subsidies or other types of support by government or government-related entities that contribute to excess capacity, including input support to steel production.
4. Government targets should take into consideration demand conditions.

f) Issues related to mergers and acquisitions

1. Mergers and acquisition should not contribute to excess capacity.
2. Any measures taken to encourage mergers and acquisitions need to be taken in accordance with effective competition law and market principles.

g) Ensuring export credits do not contribute to excess capacity

1. Members should refrain from issuing officially supported export credits for steel plants and equipment which contribute to the expansion of global steel capacity that would not otherwise take place but for such subsidisation or not be in line with global steel demand.
2. When such support is provided, the terms and conditions of officially supported export credits for steel plant and

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equipment should be transparent, reflect market pricing and practices, and take note of guidelines agreed among some members and on-going international negotiations. This will minimise the subsidisation associated with export credits, and thus avoid supporting the creation of additional steelmaking capacity.

h) Enhance transparency

1. Members should regularly update the information on sectoral trends (incl. capacity developments and production) and policy measures.
2. The Global Forum should regularly analyse, review, assess and discuss how the provided information aligns with the agreed principles.

i) Continue the process of the Global Forum

1. The Global Forum will meet at least three times per year to further discuss, assess and review this information, to ask questions and provide answers and share best practices thereon. The Argentinian G20 presidency foresees to hold 3 meetings in 2018.
2. As the priority for 2018, the Global Forum members should swiftly and fully apply the agreed principles and recommendations.
3. In the first half of 2018, members of the Global Forum will share information on the steps taken to eliminate market-distorting subsidies and other types of support by governments and related entities, as well as tangible and swift policy action for their removal.
4. The Global Forum should share best practices of steel industry adjustment and exchange experiences on new sources of steel demand.
5. The Global Forum will report on the process and concrete results in addressing excess capacity to G20 and to interested OECD countries being member of the Global Forum.

Source : Report of the Global Forum on Steel Excess Capacity approved on 30 November 2017 in Berlin

2. Global cooperation to tackle excess capacity: insights from the results of GFSEC information sharing

Steel market conditions and excess capacity

10. Steel market conditions have shown modest improvements in most regions since 2015, when the market bottomed out. Global steel demand and production embarked on a recovery in 2016 which continued in 2017, but the pace of recovery has diverged considerably across regions and economies. Conditions in the Chinese market play an important global role. Improvements in these conditions have been significant.³ One important driver has been China's capacity reductions (see next section), which have brought capacity closer to domestic demand. Given the importance of the Chinese steel market, which accounts for half of the world's total, its situation influences conditions across the globe.

11. Looking ahead, the most recent forecasts by the World Steel Association, released in April 2018, suggest that global demand for steel will continue to grow in 2018, albeit at a slower pace (1.8%) compared to 2017, while the current estimates for 2019 indicate a further slowdown in growth to 0.7%. As such, the current market expansion is transitory and associated with cyclical factors. The underlying trend in steel demand is subdued, with growth expected at only 1.1% per annum on average in the 2017-35 period, with regional variations, according to the World Steel Association.⁴ Indeed, the world's steel intensity (the amount of steel used to generate one unit of GDP) has been trending downwards and is expected to continue to do so owing to structural trends such as the shift towards more efficient use of

³ Source: presentations made by the World Steel Association at the GFSEC workin level meeting on 7-8 March 2018, on the basis of World Steel Association data.

⁴ Source: presentation made at the GFSEC working-level meeting on 7-8 March 2018.

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materials that will require lighter and stronger steel products. Other long-term forces such as population ageing and an increasing degree of digitalisation are also expected to weigh on global steel demand, though regional trends will differ.

12. These trends call for further capacity reductions going forward. In 2017, global crude steelmaking capacity exceeded steel demand (in crude steel equivalent) by approximately 595 million tonnes.⁵ New capacity investment projects continue to take place in some parts of the world, which could add further pressure to the supply-demand imbalance in the future, if the provisions of paragraph 68 of the Berlin Ministerial Report are not followed. In light of the projected trends in demand growth, the gap is likely to remain significant and of a magnitude that continues to challenge the industry's long term viability, warranting further reductions in total capacity. Without delay, governments should fully seize the opportunity of the temporary relief in the steel market conditions to address the underlying causes of excess capacity in the steel industry and prevent its re-emergence in the future.

What do the data tell us? Capacity developments

13. As noted in Annex 2, the aggregated capacity data available for 2014-2017 suggest that some progress was achieved in reducing capacity. The combined crude steelmaking capacity of the 33 members stood at 1978 million metric tonnes (mmt) in 2017. This represents a decline of 92 mmt, or 4.2%, compared to the level of 2014.

14. The data indicate that capacity developments over the last three years diverge across the Global Forum's membership. Economies like China, the European Union, Japan, United States and South Africa have registered declines in capacity since 2014. In particular, China, South Africa and the EU saw the largest relative reductions, respectively by 120 mmt (-10.6%), 0.7 mmt (-6.8%) and 12 mmt (-5.3%). Other economies have registered increases over the same period, such as India with 25 mmt (22.6%), Brazil with 4 mmt (8.5%), Mexico with 3 mmt (11.1%), Indonesia 1 mmt (11%) and Turkey 1 mmt (1.9%), albeit with very different implications for global markets depending upon their market shares. It is equally important to underline developments in the last year, between 2016 and 2017. The same five economies reduced capacity. China, Japan and the EU had the most significant reductions in absolute terms. Members like Turkey which had expanded capacity at the beginning of the period noted a reduction (for further information please see annex 2, which contains a detailed description of the results of information sharing). China has announced plans to reduce a further 30 mmt in 2018.

15. Taking a longer-term perspective on capacity developments beyond the period for which GFSEC members have been asked to provide data, figures from 2000 onwards from the OECD⁶ indicate that, despite this downward adjustment, capacity in member economies was

⁵ This figure refers to the latest OECD data for world crude steelmaking capacity and demand for steel in crude equivalent terms from the World Steel Association. The OECD's latest figure for world steelmaking capacity in 2017 is 2 267.8mmt (see <http://www.oecd.org/sti/ind/84-oecd-steel-chair-statement.htm>). Demand for steel in 2017, in terms of crude steel equivalent terms, results from taking the actual demand figure for 2016 from the World Steel Association's most recent Statistical Yearbook (1 633.7 mmt) and applying growth of 2.4% in 2017. This is the rate of growth in finished steel demand in 2017, according to the World Steel Association's most recent Short Range Outlook released in April 2018 (see <https://www.worldsteel.org/media-centre/press-releases/2018/worldsteel-short-range-outlook-april-2018.html>). As a result, the difference between world capacity and demand in 2017 was approximately 595 mmt.

⁶ The OECD Secretariat compiles steelmaking capacity data using a wide range of publicly available and commercial data sources. These data sources include government sources, commercial capacity databases,

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still up by approximately 313 mmt in 2017 compared to the level existing in 2010 and by 1098 mmt compared to the level of 2000, widely outpacing the increase in demand for steel⁷. This warrants further reductions in capacity.⁸

16. After a new round of information sharing in 2018, 32 out of 33 members of the GFSEC shared disaggregated (plant or site level) data for 2017⁹. Further analysis relative to trends emerging from disaggregated capacity data for the period 2014 to 2017 will only be possible when all members provide the agreed data. It is essential that this is provided without delay, in accordance with paragraphs 46 and 76 of the Berlin Ministerial Report. The available information suggests that privately owned companies have been affected the most by closures of capacity. Moreover, the data show that governments continue to play a considerable role in the industry. State-owned enterprises account for a large share of some members' steel production and some governments are involved in new capacity investments.

Overview of government policies and support measures in place in GFSEC economies

17. In order to fulfil the key recommendation of the Berlin Ministerial report, the two rounds of information sharing held focussed mainly on market distorting support measures that contribute to excess capacity and must be eliminated. For this purpose, information was updated as to government policies and measures examined during the first year of the Forum, which contained a number of support measures, and members provided their information and views as to any market distorting support measures in their economies that contribute to excess capacity.

18. In addition, a first exchange of information took place regarding additional policy recommendations of the Berlin Ministerial report (framework conditions; fostering a level-playing field in the steel sector; fostering industry restructuring by assisting displaced workers; government targets; issues related to mergers and acquisitions; and officially supported export credits for goods and services associated with crude steelmaking projects). It is essential that these foster market-based behaviour and avoid market distorting subsidies and support measures that would contribute to excess capacity.

19. This section provides a brief overview of policies and measures that were reported by members. A detailed description of the results of information sharing is provided in annex 2. It does not include measures that were raised in the course of the review process. These focus

specialised media reports, and company information. The data are reviewed periodically by the OECD Steel Committee. Capacity figures are in terms of nominal crude steelmaking capacity. The annual capacity figures reflect all existing steelmaking capacity at the end of a calendar year. See DSTI/SC(2018)2/REV1, forthcoming on the OECD Steelmaking Capacity Portal at oe.cd/steelcapacity

⁷ For crude steel demand, see the World Steel Association's Statistical Yearbooks, versions 2008 and 2017, and the tables therein on apparent steel use (crude steel equivalent), available at www.worldsteel.org.

⁸ Trends here differed amongst members. While some like the European Union, Japan and the United States reduced capacity as compared with any of these reference points, others like China increased capacity significantly. For example, as compared to 2000, the latter's increase in capacity was 898 mmt, while over the same period domestic demand increased by 592 mmt in crude steel equivalent terms.

⁹ Missing data was provided on September 19th. As noted above, a second round of information sharing was launched by the GFSEC Chair in the beginning of July. The report is not based on the data from the second round of information sharing which has not been reviewed nor on the missing disaggregated data that was submitted on 19 September. Once the exercise is complete, the information will be discussed by the GFSEC.

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on direct policy interventions, but do not include crucial yet less visible actions by governments—such as maintaining market-based framework conditions. The results of information sharing demonstrated heterogeneity of approaches and measures taken by members to address the excess capacity challenge, which can be explained by different institutional settings in member economies.

Update of government policies and measures bearing an influence on crude steel capacity developments. Market distorting subsidies and other support measures by government or government-related entities and steps taken to eliminate them¹⁰

20. The Berlin Ministerial report calls on governments to remove and refrain from market-distorting subsidies and other types of support measures by governments or government-related entities that contribute to excess capacity. In cases in which they distort markets and contribute to excess capacity, such measures include *inter alia* preferential financing inconsistent with market-based conditions, equity infusions and conversions (including debt-for-equity swaps) inconsistent with market-based conditions, direct transfers, tax benefits, assumption of liabilities, administrative fees and other charges by governments or government-related entities inconsistent with market considerations, provision of goods and services by government and input support, as well as distortive discretionary policy measures or non-application of market-based policy measures.¹¹

21. Members updated the status of measures and practices in their economies associated with the facilitation of closures, maintenance or support of the domestic production base, corporate restructuring, industry upgrading and innovation, compliance with environmental standards, openness to foreign direct investment and information relevant to state-owned steel enterprises—some of which involve support measures. Beyond what had already been reported, there were no major changes in the vast majority of jurisdictions. Reference is made to their description in the Berlin Ministerial report.

22. Four members (*Australia, Canada, China and the United States*) provided information on specific subsidies and other support measures by government or government-related entities in place in their economies or provided explanations regarding their legal framework. The *European Union* provided information on export credits (see below under specific point), which also fell under part 3 of the questionnaire. Members who shared such information, however, specified that the reported measures do not distort markets or contribute to excess capacity. In some cases the reported measures were not specific to the steel sector. With respect to direct transfers in the form of grants, awards and cost refunds reported by China it was specified that these support measures are not provided at the central level of government, and information was submitted with respect to measures provided at the local level of government and additional information is being collected.

¹⁰ This report and its conclusions are based on information submitted by Members as part of the review process up and until 10 May 2018. In addition, information was provided by Indonesia on 15 May (update to Section A of questionnaire), by India on 23 May (a paper on “Excess Capacity & Developing Economies”, with support from Indonesia and South Africa), by the United States on 30 May (responses to questions by Members), by the European Union on 1 June (additional information on export credits), by China on June 5 (information on grants and awards at the provincial level). As indicated above a second round of information sharing is ongoing and results remain to be discussed by the Global Forum.

¹¹ As per para 57 of the Berlin Ministerial report. Explicitly, paragraph 49 thereof, these should be eliminated when they distort competition by contributing to excess capacity – as the Global Forum objective is precisely to address such excess capacity.

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23. In addition, Australia, Brazil, the European Union Japan, Korea, Mexico, Norway, Russia, Saudi Arabia, South Africa, Switzerland Turkey, and the United States stressed that any such measures in their economy were not market-distorting and do not contribute to excess capacity. Many of these economies have not increased capacity in the past two decades—but rather reduced it, thereby not contributing to excess capacity. Canada indicated that it operates on the basis of market-based frameworks and outcomes with no steel-specific market-distorting subsidies and other forms of support by government and related entities at the national level. China provided details on its existing regulatory framework and practices and stated that it is one of the few members that have introduced measures to reduce steel capacity since 2016 and has made significant contributions to addressing this global challenge. India noted that it does not have excess capacity and that there are no support measures by government or government-related entities that distort competition by contributing to excess capacity.

24. The review exercise shed useful light on a number of unreported support measures, as described below in Section 3 “Outcomes of the review process”.

Other policy recommendations

25. In addition, during the first two meetings of 2018, Global Forum Members had a first exchange on other policy recommendations.

26. **Framework conditions.** The Berlin Ministerial report provides that Members should consider the extent to which their framework conditions and institutional settings ensure proper market functioning and policy objectives consistent with the need for reducing global excess capacity. Against this background, members of the Global Forum provided the following information: i) policies that contribute to the removal of barriers to trade and foreign direct investment; ii) aspects of their competition laws that ensure that all companies compete on a level playing field, irrespective of ownership, domestically and internationally; iii) financial market regulations in place to address non-performing loans; and iv) how labour market regulations, social security and pension systems in their economies support adjustment in a way which does not contribute to excess capacity, while ensuring the sustainability of social welfare systems. The importance and complexity of these issues, signals that much more transparency and discussion are called for as work progresses. Areas which merit particular attention are trade and investment as regards implementation, raw materials, and outward investment. Members should provide comprehensive information covering 2014-2017.

27. **Fostering a level-playing field in the steel sector.** Principle III and the recommendations of the Berlin Ministerial report provide that irrespective of ownership, all enterprises acting in the steel market should not receive subsidies or any other types of support that distort competition by contributing to excess capacity and should follow the same rules and regulations with economic implications, including bankruptcy procedures. All GFSEC members indicated that companies in their jurisdictions are subject to the same rules and regulations including those related to transparency, disclosure, enforcement, competition and bankruptcy procedures. Also, here, the importance and complexity of these issues, and fact that only three members (the European Union, India and South Africa) listed steel companies that are in a state of bankruptcy, signals that much more transparency and discussion are called for as work progresses. Members should provide comprehensive information covering 2014-2017.

28. **Fostering industry restructuring by assisting displaced workers.** In line with Principle V of the Berlin Ministerial Report and the policy recommendations approved by GFSEC

members, employment adjustment measures are an important instrument for addressing the social cost of restructuring, in so far as they are provided as support to workers and do not constitute subsidisation to companies, which could maintain existing capacities in place. Against this background, several GFSEC members provided information on employment adjustment measures in place for addressing the social cost of restructuring. For instance, Australia provided information on its *Jobactive service*, which allows retrenched workers to retrain and find new employment as well as information on *Structural Adjustment Packages* that allow retrenched workers from certain eligible companies in specific industries to receive extra support. China provided information on its restructuring and employment adjustment measures under Notice of the Ministry of Human Resources and Social Security (MHRSS), the National Development and Reform Commission (NDRC) and other three Ministries on Offering Job Placement to Workers in the Process of Resolving Excess capacity and Difficulties in the Steel Industry and the Coal Industry in 2017 (Document No.24 issued by MHRSS, on March 21, 2017), Opinions of the Ministry of Human Resources and Social Security(MHRSS), the National Development and Reform Commission(NDRC) and Other Five Ministries on Offering Job Placement to Workers in the Process of Resolving Excess capacity and Difficulties in the Steel Industry and the Coal Industry (Document No.32 issued by MHRSS on April 13, 2016), Measures for the Management of Special Funds for Restructuring of Industrial Companies” (MF 2016 No.253) and the “Notice of the Ministry of Finance on Reinforcing the Management of Special Funds for Restructuring of Industrial Enterprises” (MF 2016 No.321). Multiple ways of diverging and resettling workers has been provided in above regulations. Also, the funds for steel industry restructuring has been set to resettle workers. Supervision and Inspection of the fund usage has been enhanced to prevent reopening of shut-down capacity and to prohibit new capacity investments in violation of laws and regulations. The European Union shared information on relevant measures under the *European Globalisation Adjustment Fund (EGF)* and the *European Social Fund*. It was also specified that in line with the EU measures that were adopted by the EU Member States, financial and technical support is provided directly to workers while companies are not the beneficiaries of such support. The United States provided information on the *Trade Adjustment Assistance Program (TAA Program)*, which provide assistance to workers who have been adversely affected by foreign trade. The program allows workers to obtain skills, credentials, resources, and support necessary to build or rebuild skills for future employment and as such benefits workers rather than employers, and therefore does not constitute subsidisation to companies.

29. Government targets. Some member governments have targets to reduce or increase steelmaking capacity in their economies. The government of China set specific targets for reducing crude steel capacity at the economy-wide level in 2016, 2017 and 2018 (amounting to 45 mmt, 50 mmt and 30 mmt of capacity, respectively). China stated that altogether over 120 million metric tons of crude steel capacity have been removed since China enacted target of de-capacity in 2016, and the target has been surpassed. No member has reported targets for reducing crude steel capacity at the sub-central level of government in the period 2014-2017. One member (Indonesia) reported specific targets for increasing crude steel capacity; a target of 25 mmt was announced in 2015 and has been set for the period 2015-2035. As work progresses, it will be essential to examine whether reduction targets are accompanied by actions to eliminate policies that contribute to excess capacity, and whether targets for increase of capacity contribute to excess capacity by not being in line with demand, market forces, or by fair trade not playing its full role in meeting increases in demand.

30. Issues related to mergers and acquisitions. Some member governments are seeking to address the problem of excess capacity by promoting mergers and acquisitions (M&As). In line

with the recommendations approved by members in Berlin, any measures taken to encourage M&As need to be taken in accordance with effective competition law and market principles. The results of the information sharing indicate that many GFSEC economies (Australia, Brazil, Canada, China, the European Union, India, Japan, Russia, South Africa and the United States) experienced M&As transactions, the largest number of which were reported by the European Union and China. Several members also provided further details on how the reported M&As followed competition law and were based on market principles, and gave information on the resulting synergies and consolidation of the relevant operations. Further exchange and review thereon will be important as although M&As can help to address excess capacity, M&As do not necessarily guarantee that capacity will effectively be closed and a variety of obstacles can impede industry restructuring and capacity reduction through M&As. Members should provide comprehensive information covering 2014-2017.

31. Ensuring export credits do not contribute to excess capacity. The Berlin Ministerial report calls on members to refrain from issuing officially supported export credits for steel plants and equipment, which contribute to the expansion of global steel capacity that would not otherwise take place but for such subsidisation or would not be in line with global steel demand. When such support is provided, the terms and conditions of officially supported export credits for steel plants and equipment should be transparent, reflect market pricing and practices, and take note of guidelines agreed among some members and on-going international negotiations. This will minimise the subsidisation associated with export credits, and thus avoid supporting the creation of additional steelmaking capacity. The majority of members indicated that their respective governments do not provide officially supported export credits for goods and services associated with crude steelmaking projects. The European Union has provided information about export credits by project for 2014-2017. In its response, the European Union specified that the export credits provided by the EU comply with the terms and conditions established by the OECD Arrangement on Officially Supported Export Credits. Members should provide comprehensive information covering 2014-2017.

32. Best practices for steel industry adjustment and experiences on new sources of steel demand. Several members shared their views on best practices to encourage steel industry adjustment, their experiences on new sources of steel demand and on reduction of capacity on the basis of market forces and aided by targets, and on the role of a robust competition framework. The summary of members' inputs is provided in annex 2.

3. Outcomes of the review process

33. As established in Principle VI and described in the Berlin Ministerial report, the review process allows for discussion, assessment and review of the capacity and policy information shared by Global Forum members. The initial review process that took place in the first half of 2018 allowed members to provide clarifications and to respond to questions raised by other members regarding their capacity data, subsidies and other types of support by government and government-related entities as well as other measures and practices in the policy areas described in the section above. The rich exchanges that took place confirm the key role the review process can play in promoting transparency among members and filling the existing information gaps. In what follows, the key outcomes and insights of the review process with respect to the capacity data as well as subsidies and other types of support by government and government-related entities are presented.

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Reducing excess capacity

34. While limited by gaps in the availability of disaggregated data for 2017, in the course of the review process the GFSEC members scrutinised the available data and trends in a rich exchange, and a number of salient points emerged.

35. Given its share of global production and capacity, China plays an important role in global efforts to reduce overcapacity. It has set targets to reduce domestic crude steel capacity (to reduce 100 to 150 mmt of crude steel capacity in five years starting from 2016) and implemented policies to limit capacity additions. This implies a drop between 9% and 13% to 977-1027 mmt. Chinese net capacity reductions in 2016 and 2017 amount to 120 mmt¹² and a further 30 mmt net reduction is planned. The contribution to capacity reduction is welcomed. It is important to ascertain what the net effect of these reductions is. China clarified that the process of replacement resulted in no addition of capacity in 2016 and 2017. A deeper discussion of these issues will take place once disaggregated data is made available. The data at hand indicates that the brunt of adjustment falls on private owned enterprises and that for a substantial number of companies, support received does not translate into capacity reductions—also areas for further discussion.

36. The discussion equally brought to light that many jurisdictions had not contributed to the global increase in capacity, yet they reduced their own capacity and/or faced severe economic and employment impacts. This asymmetry is an inherently unfair situation.

37. Certain members underlined the importance of boosting demand. India put forth its projections with regard to capacity increases expected in line with demand forecast, as also interplay of market forces.

38. The trends depicted by experts confirmed that long-term steel demand will remain subdued at 1.1%, with regional variations, and therefore would not solve the problem of excess capacity. At constant capacity and expected long-term demand growth, it would take more than 30 years to fully absorb the current capacity-demand gap¹³. This can only spell intense disruptions at the next downturn with significant social, economic, and trade and political consequences at the local, regional, and global level.

39. On the basis of sharing of best practices enshrined in the GFSEC, during the review process the EU discussed its experience and the results achieved with its "Plan Davignon", where a 20% reduction in capacity proved necessary to ensure industry sustainability, and where the cost of not going far enough generated onerous and socially painful costs. This experience could inform the exercise under paragraph 48.

40. Also with a view to learning from past experiences, Members examined steelmaking capacity developments using OECD data over the period that preceded the recent excess capacity surge, i.e. back to 2000. An analysis of steel market developments in the individual economies participating in the GFSEC paints a picture of significant heterogeneity across jurisdictions since 2000, a decade and an half before the world steel markets reached their

¹² Reported closures over the same period were 120 mmt.

¹³ This is estimated on the basis of the long-term demand forecasts of the World Steel Association, presented at the 7-8 March 2018 GFSEC meeting, which place the expected global growth in steel demand in the 1% per annum range until 2035, and on the basis of current OECD capacity figures at the global level, which are kept constant for the purpose of the exercise.

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nadir in 2015. While Chinese steelmaking capacity has declined significantly in recent years, in 2017 it was at a level that is approximately 898 mmt greater than that prevailing in 2000. Smaller but substantial increases (above 30 mmt) can also be observed in the case of India, Korea and Turkey, corresponding to 94.2 mmt, 35.8 mmt and 32.3 mmt, respectively, during the same time period. Compared to 2010, capacity in China is up by 247.6 mmt, equivalent to an increase in relative terms of 30.9%. In comparison with 2010, economies where steelmaking capacity also increased included India (50.2 mmt or an increase of 64.3%), Turkey (9.4 mmt or an increase of 22.1%) and Korea (8.91 mmt or an increase of 11.7%).

41. Examining the evolution of demand at the economy level, using figures from the World Steel Association, shows that apparent steel use has increased substantially in some economies since 2010, while in others it has remained essentially flat. The largest increases in apparent steel use were registered in China, where it was up by 117.8 mmt (in crude steel equivalent terms) in 2017 compared to 2010, in India (30.8 mmt), in the United States (16.7 mmt), in the European Union (14 mmt) and in Turkey (13.2 mmt).¹⁴ The gap between global capacity and steel demand, which in 2000 was 201.4 mmt, stood at 482.7 mmt in 2010. It then increased for several years thereafter, reaching a peak above 700 mmt in 2015, and has receded somewhat since then. In 2017, the gap is estimated to have reached approximately 595 mmt. All in all, the evidence from the last decade confirms the existence of an apparent disconnect between capacity and demand developments, driving the excess capacity situation to its current levels.

42. Three key conclusions emerged from the review process.

- First, it is essential that information gaps be addressed as a matter of urgency, in accordance with paragraphs 46 and 76 of the Berlin Ministerial Report.

- Second, while the welcome reduction in global capacity has contributed to some narrowing of the gap between global capacity and demand, it is apparent that this adjustment falls short of solving global excess capacity. Neither the steel sector, nor the world economy, can afford to repeat the costly mistakes of the past—losing the political impetus to genuinely tackle excess capacity as soon as cyclical upturns kick in. It is our common responsibility to avoid them. For this challenge to be addressed in a sustainable way, it is suggested to continue and accelerate the pace of capacity reductions where necessary. Members should solve the problem by taking concrete actions and eliminate subsidies or support measures which distort the market and contribute to excess capacity.

- Third, to ensure that excess capacity is not exacerbated by the capacity increases that are expected to take place in some member economies, and in line with paragraph 68 of the Berlin Ministerial report, members of the Forum should work together to ensure that: a) capacity increases are not linked to any form of government support, b) demand considerations are duly taken into consideration and c) open fair trade can play its full role in fulfilling the expected increases in demand.

¹⁴ Estimates for 2017 are derived by applying the growth rate in demand for finished steel from the World Steel Association's latest Short Range Outlook, released in April 2018 (see <https://www.worldsteel.org/media-centre/press-releases/2018/worldsteel-short-range-outlook-april-2018.html>).

Eliminating subsidies and other support measures that contribute to excess capacity

43. Pursuant to principle VI of the Berlin Ministerial report, the review process has a key role as the GFSEC implements policy recommendations. This process discussed and reviewed an extensive amount of substantive information that had not been reported previously, helping to identify subsidies and other kinds of support which may contribute to excess capacity¹⁵, as well as swift and tangible actions for removal, and to advance the application of Principle II of the Berlin Ministerial Report. Review is progressive by nature, and the GFSEC will gradually widen the number of measures examined. This process analyzes, reviews, assesses and discusses these matters. The results of such process generates a balance of views as to the different matters under discussion. This balance of views does not impose any binding obligations on Members, who need not necessarily share the aforesaid balance. The process and assessment is expected to inform the choice of Members to provide voluntary commitments. Such commitments are left at the discretion of each Member, which can provide voluntary commitments even if it disagrees with the balance of views expressed. Members are welcomed to provide such voluntary commitments wherever they can, in support of the objectives of the Forum to eliminate overcapacity and support measures that contribute thereto.

44. In the first half of 2018, the process covered practices in Brazil, the European Union including three of its Member States (Germany, Italy, UK), India, Indonesia, Japan, the People's Republic of China and the United States, with wide exchange amongst the membership. This section summarises the salient results of the collective discussion for these specific measures at the present time, while annex 3 contains more detailed references. The result of these discussions was the emergence of a balance of views among Members regarding the extent to which the measures of particular Members identified during the review process fall under paragraph 57 of the Berlin Ministerial report.¹⁶

- *Brazil*: The discussion centred around preferential taxes and State participation in certain companies. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57.
- *The European Union and its Member States*: The discussion centred around preferential loans (Germany and Italy), State Bank guarantees (Germany), state aid proceedings, grants (Germany and Italy), tax incentives (Italy), energy subsidies (Germany and Italy), coal mining subsidies (Germany), procurement practices (UK) and export credits. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57.
- *India*: The discussion centred around application of bankruptcy provisions. While discussion continues, the evidence at hand and the balance of the collective exchange does not indicate that these would fall under paragraph 57.

¹⁵ The contribution to excess capacity is central to this exercise. Support measures should be seen in the light of the how different jurisdictions have contributed thereto, not least in view of capacity developments.

¹⁶ The description of the review process that follows with regards to each GFSEC Member is described with reference to the language used in the GFSEC questionnaire for information sharing, based on the text of the Berlin Ministerial Report and is not intended to imply an assessment of the measures discussed.

- *Indonesia*: The discussion centred around raw material support, tax allowances and holidays. While discussion continues, the evidence at hand and the balance of the collective exchange does not indicate that these would fall under paragraph 57.
- *Japan*: The discussion centred around grants for research and development support. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57.
- *The People's Republic of China*: The discussion centres around preferential financing; equity infusions; investment funds; grants; input and raw material support; tax exemptions; application of bankruptcy provisions; tariffs, quotas, tax rebates and export restrictions; isolation from international price arbitrage or external price setting; support for outward investment.
- *United States*: The discussion centred around preferential loans, loan guarantees, grants and tax exemptions. The evidence at hand and the balance of the exchanges do not indicate that these would fall under paragraph 57.

45. The results of the review process demonstrate that the exercise has proven to be effective in shedding light on government measures and practices, which were not reported by members during the information sharing process. The exercise has also helped in identifying subsidies and other types of support by government and government-related entities on which additional information and discussion will be necessary, to assess whether they should be removed in line with the policy recommendations in the Berlin Ministerial Report. Taken together, this information provides a useful basis upon which to develop voluntary commitments with regards to these measures. At the same time, all members should also take necessary steps to ensure that such measures are not introduced in their economies in the future. These actions will be an important step towards fulfilling the call made by Leaders at the Hamburg summit one year ago.

4. Commitments taken by GFSEC members for eliminating excess capacity and subsidies and support measures that contribute thereto, and preventing the recurrence of excess capacity

46. In line with Hangzhou and Hamburg Summit commitments by G20 Leaders, and with the principles and policy recommendations of the Berlin Ministerial report, GFSEC Members are committed to eliminating excess capacity and the market-distorting support measures that contribute thereto as a matter of urgency, and to preventing the recurrence of excess capacity. This calls for tangible and swift policy actions, which are embodied in the following commitments.

47. In the spirit of the GFSEC, these commitments are voluntary and collective. They involve all GFSEC members in different ways, reflecting the variety of institutional set ups of members. They also reflect the outcomes of the GFSEC review enshrined in principle VI of the Berlin Ministerial report. They will be regularly reviewed in that framework.

48. The GFSEC agrees to accelerate the reduction of excess capacity. The GFSEC notes one Member, China, has already set a target to reduce net capacity by 100-150 mmt in the 2016-2020 period. To eliminate excess capacity as a matter of urgency, the GFSEC will suggest further necessary reductions by June 2019. Members should solve the problem by taking

concrete actions and eliminate subsidies or support measures which distort the market and contribute to excess capacity.

49. The GFSEC will regularly review under principle VI planned or effective capacity increases with the four criteria of paragraph 68 of the Berlin Ministerial and draw the relevant conclusions, starting in the 2018 report. Capacity increases not in conformity with these principles will be discouraged and remedial actions discussed.

50. The swift and unequivocal implementation of these concrete and tangible actions is essential to demonstrate the effectiveness of this multilateral Forum to address our collective challenges, and to underline the value of cooperation in international relations.

5. Next steps to be undertaken by the Global Forum

51. With the aforementioned voluntary commitments, the GFSEC has taken an important first step towards the swift and effective application of the recommendations of the Berlin Ministerial report.

52. During the fourth quarter of 2018 and in 2019, the Global Forum must complete this urgent and crucial task. Nothing less than the full and timely implementation of policy recommendations will suffice to fulfil Hangzhou and Hamburg Summit commitments by G20 Leaders. In particular, all Members must thoroughly fulfil their information sharing commitments, per the Berlin Ministerial Report, in particular as regards those issues where discussion is ongoing, before 30 October, 2018, for review at a GFSEC meeting during the fourth quarter of 2018. In this sense, work in the remainder of 2018 and 2019 will:

- identify support measures that fall within the purview of paragraph 57 of the Berlin Ministerial Report, if there are any, as well as commitments for swift and policy action for their removal;

and

- implement recommendations on framework conditions; fostering a level-playing field in the steel sector; fostering industry restructuring by assisting displaced workers; government targets; issues related to mergers and acquisitions; officially supported export credits; and best practices on adjustment and exchange of experiences on new sources of steel demand.

53. The GFSEC looks forward to the continuation of the work of the Forum in order to deliver on the Berlin commitments.

54. The aforementioned work will send a message that is as clear as it is important. GFSEC members are not willing to repeat the costly mistakes of the past, and will maintain the political impetus to genuinely tackle excess capacity—ensuring that the next downturn in the steel sector does not bring the dire social, economic, trade and political consequences witnessed in recent years.

Annexes:

1. Berlin Ministerial report
2. Summary of the results of the information sharing and of the review process
3. Details of the review process under principle VI

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4. Global Forum Members' Policies and Views on Addressing Capacity
5. Extracts from G20 Communiqués (G20 Leaders (Hamburg), G20 Leaders (Hangzhou), G20 Trade Ministers (Shanghai), G20 Finance Ministers (Chengdu))
6. GFSEC TORs

ANNEX 1. BERLIN MINISTERIAL REPORT (FULL REPORT EXCLUDING ANNEXES)

Introduction

1. A core engine for industrialisation since more than two centuries, the steel sector has been an important conveyor belt linking economies throughout the world in the past 40 years, through its central position in global value chains. Indeed, few challenges are more existential or global than those in the steel sector.

2. Excess steelmaking capacity – a global challenge that continues to plague the sector – creates significant difficulties for steel producers in advanced, emerging and developing economies alike. The situation has become particularly acute since 2015. It depresses prices, undermines profitability, generates damaging trade distortions, jeopardizes the very existence of companies and branches across the world, creates regional imbalances, undermines the fight against environmental challenges and dangerously destabilizes world trading relations. It especially undermines income opportunities of employees. Alleviating excess capacity becomes a necessary condition for more stable, profitable and sustainable business and employment conditions, which allows the industry to face a number of long-term challenges more effectively.

3. Indeed, the steel industry will have to adjust in response to fundamental changes in economic activity brought on by the “next production revolution,” necessitating the development of new, breakthrough steelmaking technologies. If the steel industry is to continue to invest towards value creation, it will require significant reductions in excess capacity and a return to sustained profitability.

4. The dimension and depth of excess capacity implies it is no longer simply a cyclical issue to be tackled as “business as usual”. Curbing excess capacity and building a well-functioning, open, competitive, efficient, stable and transparent environment is a core challenge of our time - for the steel sector and beyond, as expressed in the Hangzhou and Hamburg Summits. This report focuses on the steel sector and provides concrete policy solutions to reduce steel excess capacity.

5. In light of these challenges, G20 Leaders called for the formation of a Global Forum on steel excess capacity at their summit on 4 and 5 September 2016, in Hangzhou, China.

6. The Global Forum on Steel Excess Capacity was formally established, and its Terms of Reference approved, on 16 December 2016 in Berlin, following several preparatory meetings in September, October and November of that year. The Global Forum brings together 33 member economies representing more than 90% of global steel production and capacity. According to the G20 Leaders’ mandate at Hangzhou, the OECD acts as the facilitator to the Global Forum, its Steering Group and the Chairmanship. The facilitator has provided valuable support to the Global Forum throughout all work stages, in terms of technical, analytical and meeting facilitation support. The majority of the Global Forum meetings hosted by the German Chair took place at the premises of the OECD.

7. In line with G20 Leaders’ call for increased information sharing, the Global Forum dedicated the first several months of its work to developing an information-sharing mechanism to exchange information on crude steel capacity developments, government policies to

address excess capacity, as well as market-distorting subsidies and other government support measures that contribute to steel excess capacity.

8. In response to the G20 Leaders' call all 33 members participated in the information sharing exercise and all had provided disaggregated data on capacity as well as policies taken at the central government level. This was complemented by inputs from relevant stakeholders. Progress has been made since the Hamburg Summit. The Global Forum now has an extensive database on capacity developments at the disaggregated level¹⁷, provided or verified by governments. It also has collected information on government policies with a direct or indirect bearing on excess capacity in the steel sector. Such data has been provided at the central government level for all members and at the regional or provincial levels for most members. While much work remains, this is the first time that a policy inventory is being built that goes well beyond what is reported in other fora and whose emphasis is on policies relevant for steel. This tangible process contributes to the collective trust and confidence that are necessary to find collective solutions to the challenge of excess capacity. The first year of operation of the Global Forum has put in place the mechanisms needed to deliver on the Forum's goals. It is now time for the Forum to achieve those concrete results.

9. Following the commitments made by G20 Leaders at the Hamburg summit, this substantive report defines concrete policy solutions as a basis for tangible and swift policy action to address excess capacity in the steel sector.

10. In the Hangzhou and Hamburg Summits, Leaders referred to excess capacity as a phenomenon with the following characteristics:

- It is global and requires collective responses, with each economy taking the necessary actions to deliver the collective solutions that foster a truly level playing field.
- Subsidies and other types of government support can cause market distortions and contribute to the problem of excess capacity, requiring urgent attention. In particular, the market function should be enhanced, adjustment encouraged, and such market-distorting subsidies and other types of support by governments and related entities should be removed.
- It is exacerbated by a weak global economic recovery and depressed market demand.

11. Efforts by the members of the Global Forum play an important role to improve the global steel industry.

1. Global cooperation to find solutions to tackle excess capacity in the steel market

The state of the steel industry

12. The global steel industry showed some signs of recovery in 2016 and registered moderate growth in 2017, supported by stronger growth in the global economy more generally. The cyclical recovery in steel markets appears to have broadened, and most regions are

¹⁷ South Africa has not agreed to share disaggregated data with other Global Forum members due to legal reasons. Based on the principle of reciprocity, South Africa therefore will be exempted from the information sharing and not have access to Global Forum members' disaggregated data.

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expected to register growth in steel demand in 2017 and 2018, according to the most recent forecasts available for the world steel industry.

13. However, the evidence suggests that the current uptick is associated with cyclical factors and that the underlying trend in steel demand remains weak. The world's steel intensity (the amount of steel used to generate one unit of GDP) has been trending downwards and is expected to continue to do so owing to structural trends such as the shift towards more efficient use of materials that will require lighter and stronger steel products. Other long-term forces are also at work which, without prejudice to certain regional trends, will keep global steel demand growth subdued, including the ageing population and digitalisation trends. World Steel Association forecasts frame long-term demand growth in the 1% per annum range.

14. At the same time, capacity levels exceed global consumption significantly, with closures in some economies being partially offset by continued capacity expansions. In this market context, excess capacity in the global steel industry has increased in recent years. In 2016, the global surplus in steelmaking capacity is estimated to have reached around 737 million metric tonnes, the highest level seen in the history of the steel industry.¹⁸ If the announced capacity expansions until 2020 take place, excess capacity will further increase—exacerbating the imbalance.

15. The imbalance between supply and demand is a global challenge that has led to a collapse in the fortunes of steel industries in all regions of the world. Excess capacity has driven down prices, employment, capacity utilisation rates and profitability for steelmakers, putting at risk the viability of an industry that produces a material which is vital for the functioning of economies and societies. It negatively affects the environment.

16. Further significant reductions in global excess capacity will be needed in order to avoid a prolonged structural crisis in the steel industry. Governments have a role to play in this process. Swift and tangible actions that encourage industry restructuring, remove market-distorting subsidies and other governmental support measures that contribute to excess capacity, and enhance the role of market forces in determining the competitive outcomes in the steel industry would alleviate excess capacity in the short and long term.

What do the data tell us?

17. The capacity data for 2014-2016 shared by members suggest that the overcapacity situation may have eased slightly very recently, but not enough to meaningfully reduce the structural imbalance and avoid problems going forward. The total crude steelmaking capacity of the 33 members stood at 2,031.4 million metric tonnes (mmt) in 2016, a decline of 43.7 mmt, or 2.1%, compared to the level of 2014. Despite this downward adjustment, capacity in member economies is still up considerably compared to the level existing in 2010 according to

¹⁸

This figure is based on the latest OECD data for world crude steelmaking capacity and demand for steel in crude equivalent terms, based on figures from the World Steel Association. The OECD's latest figure for world steelmaking capacity in 2016 is 2,369.5 mmt (see <http://www.oecd.org/sti/ind/83-oecd-steel-chair-statement.htm>). Demand for steel in crude steel equivalent terms, in 2016, is derived by taking demand in 2015 from the World Steel Association's most recent Statistical Yearbook, 1,616.8 mmt, and applying growth of 1% in 2016, which is the growth estimated for finished steel demand in the October 2017 release of the World Steel Association's Short Range Outlook (see <https://www.worldsteel.org/media-centre/press-releases/2017/worldsteel-Short-Range-Outlook-2017-2018.html>). While the final figure has not been released, based on these data sources, the difference between world capacity and demand in 2016 was approximately 737 mmt.

OECD figures, outpacing the increase in global demand for steel by a wide margin over that period.

18. The data indicate that capacity developments over the last two years diverge across the Global Forum's membership. Economies like the European Union, China, and Japan have registered declines in capacity since 2014, while others like India, Indonesia, Mexico, Brazil and Turkey registered increases over the same period, albeit with very different implications for global markets depending upon their market shares (for further information please see Annex 1). Significantly, the plant-level data shared by members suggest that privately owned companies have been affected the most by closures of capacity. In many other economies, where steel demand developments are currently more favourable, or where demand is expected to increase significantly in the longer term, capacity expansions continue to be observed. Moreover, the data show that governments continue to play a considerable role in the industry. State-owned enterprises account for a large share of some members' steel production and some governments are involved in new capacity investments.

2. Government policies, measures and practices in Global Forum member economies

19. Past and current restructuring experiences in the steel industry demonstrate that governments used different approaches for addressing the challenges of excess capacity (see Annex 2). The extent of government intervention in the restructuring process has varied considerably across countries. The results of the Global Forum information-sharing exercise, as well as recent discussions at the meetings of the Global Forum, also indicate that while the majority of Global Forum member economies focus their policy efforts on ensuring market mechanisms play their full role in addressing the challenge, some members are taking administrative measures to address excess capacity. Administrative measures, if appropriately designed, and where feasible given the institutional setting, may bring effective and immediate results in reducing excess capacity. That said, the underlying causes of excess capacity have to be addressed, and the market function enhanced, to ensure long-lasting effects. This is corroborated empirically by the experience of the 1970s and 1980s (see Annex 2).

20. Irrespective of the institutional setting, governments might have reservations about the closure of plants for social reasons, such as the impact on workers and communities, and the elimination of inefficient capacities can be the subject of lengthy negotiations. The provision of subsidies and other types of government support provided, even on a temporary basis, can keep inefficient capacities in operation instead of encouraging the exit of those firms. The costs of exiting the steel industry (e.g. related to social and environmental obligations) may act as a barrier to the restructuring and closure of steel mills. It is important to bear in mind that the cost of delaying, or not restructuring the steel sector altogether, is very high, and can create systemic risks for the broader economy. Again, past experience confirms this.

21. Industry has the responsibility to identify ways to adapt to changing market conditions and companies are best placed to decide on when to invest in new capacity or when to scale it back when market conditions change. Governments have an important role to play, for example by ensuring market mechanisms work properly, by avoiding measures that artificially support excessive steelmaking capacity, and by minimizing the social impact of capacity reduction. Policies to facilitate the closure of inefficient capacity, e.g. effective bankruptcy legislation and policies to ensure that all companies compete on a level playing field irrespective of their ownership structure are key.

Overview of government policies and measures being taken by members

22. The three rounds of information-sharing allowed members to provide information on a number of government policies and measures in place bearing an influence on crude steel capacity developments.¹⁹ The remainder of this section provides a brief overview of policies and measures that were reported by members. A detailed description of the results of information sharing is provided in Annex 1. These focus on direct policy interventions, but do not include crucial yet less visible actions by governments—such as maintaining market-based framework conditions (such as those described in section 3.2).

23. Given its share of global production and capacity, China plays an important role in global efforts to reduce overcapacity (see Annex 2). Mindful of the pernicious effects of excess capacity to the steel sector and the economy, China has set targets to reduce domestic crude steel capacity and has implemented policies to limit capacity additions. In 2016, the Chinese government issued the Opinions on Resolving Overcapacity and Difficulties in the Steel Industry that set the objective to reduce 100 to 150 mmt of crude steel capacity in five years starting from 2016. They imply a drop between 9% and 13% to 977-1027 mmt. 500,000 workers would be resettled—around 15% of the total. Reductions would bring capacity closer to consumption.

24. Some member economies indicated that objectives had been set to expand their crude steelmaking capacity in the medium to the longer term. Based on recent forecasts set out in the National Steel Policy of 2017, India notes that capacity will rise to 300 million tonnes by 2030-31 to meet growing domestic demand. Indonesia has also indicated that its National Master Plan of Industrial Development 2015-2035 foresees an increase in crude steel capacity.

25. While restructuring is essential for addressing the challenge of excess capacity, policies designed to facilitate restructuring should be carefully designed to minimise the social costs to workers and affected communities. The high concentration of jobs in the sector, as well as the large number of jobs which are indirectly affected by steel industry restructuring, represents an important policy challenge. Members have reported a number of policies and measures in place to facilitate restructuring, including facilitating enterprises in performing social and employment liabilities of closed plants (China), incentives to assist steel workers and promote re-employment (Australia, China, the European Union and its Member States, Korea, and the United States), as well as the provision of retraining services to retrenched employees.

26. In the responses to the questionnaire, only a few members have explicitly reported the existence of policies and measures aimed at maintaining the domestic production base. The reported measures include incentives to promote investments in steel-intensive infrastructure, measures with a specific policy intent to boost steel demand in downstream sectors, trade-related measures applied to fairly traded imports, the introduction of tariff rates on certain steel products, tax concessions as well as government procurement policies requiring domestic

¹⁹ Members were invited to indicate the targets set for reducing or increasing steelmaking capacity and describe existing measures and practices in their economies associated with i) the facilitation of closures, ii) the maintenance or support of the domestic production base, iii) officially supported export credits for goods and services associated with crude steelmaking projects, iv) corporate restructuring, v) industry upgrading and innovation, and vi) establishing and ensuring compliance with environmental standards. Members were also invited to provide information on openness to foreign direct investment as well as information relevant to state-owned steel enterprises.

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steel content. Members of the Global Forum have not provided information on measures related to the assumption of enterprises' social liabilities as well as loans, guarantees and debt forgiveness provided at preferential terms by state-owned banks, development banks, and other government-related entities, as per the template.

27. The willingness of members to provide and discuss information on government policies and measures which potentially influence crude steel capacity and market developments is an important first step. However, it is essential to go further and increase transparency among all members with respect to market-distortive subsidies and other types of support measures provided by government and government-related entities at the central and regional levels of government. Ensuring complete information on relevant government policies and measures is crucial for addressing the challenge of excess capacity.

28. The overwhelming majority of members indicated that their respective governments do not provide officially supported export credits for goods and services associated with crude steelmaking projects.

29. Turning to policies and measures related to steel-specific corporate restructuring measures, only four members reported relevant measures in place. More specifically, members indicated measures to promote industry consolidation (Indonesia and Korea²⁰), measures to facilitate changes in ownership structure (China), measures with respect to the improvement of rules and regulations related to corporate governance as well as the improvement, simplification, or acceleration of bankruptcy procedures (Indonesia). Canada indicated measures that allow corporations to restructure their business and financial affairs.²¹ The implications that such measures have for addressing the issue of excess capacity will depend on the precise characteristics of the measures.

30. Innovation is an important driver of steel industry competitiveness as it allows firms to produce better products that meet more sophisticated demand or by installing new production methods that lower costs and reduce adverse environmental impacts. The majority of members indicated one or several policy measures related to steel industry upgrading and innovation in their economies. For instance, members reported initiatives aimed at encouraging plant modernisation (the European Union and its Member States as well as Indonesia) and policies and measures related to the encouragement of product specialisation (China, the European Union and its Member States, Indonesia and Korea). The majority of those who responded in the affirmative to this question indicated government support for research and development activities (Australia, Canada, the European Union and its Member States, Japan and Korea). China and Indonesia indicated initiatives aimed at upgrading steel workers' skills while India provided information on the relevant initiatives under its National Steel Policy 2017.

31. Several members provided information on policies and measures aimed at establishing and ensuring compliance of steel-producing facilities with environmental standards. These include introduction or increased stringency of environmental standards and permit requirements, introduction (or higher level) of pollution discharge fees, and the introduction of (or tighter) requirements for monitoring of pollution levels as well as introduction of measures to promote energy saving.

²⁰ The measures are generic and not specific to the steel sector.

²¹ The measures are generic and not specific to the steel sector

32. Turning to the information relevant to state-owned steel enterprises, China, India, Indonesia and South Africa reported on the existence of state-owned steel companies in their economies. These four members indicated that their state-owned steel enterprises are subject to the same reporting requirements as listed private enterprises and have to earn a rate of return comparable to private enterprises. China, Indonesia and South Africa also have explicit guidelines or targets for the disbursement of dividends by state-owned steel companies, while in India such guidelines are not specific for state-owned steel companies.

33. The results of information sharing demonstrated heterogeneity of approaches and measures taken by members to address the excess capacity challenge, which can be explained by different institutional settings in member economies. To create a common basis for swift and effective action, members agreed on six principles, which will guide governments in their efforts to develop policy solutions to encourage market function and reduce excess capacity in their steel sectors.

3. Concrete policy solutions recommended by the Global Forum

3.1 Six principles: a reference framework to guide the development of policy solutions to reduce excess capacity

34. The call by G20 Leaders at the Hamburg Summit to “rapidly develop concrete policy solutions that reduce steel excess capacity” and deliver “a substantive report with concrete policy solutions by November 2017, as a basis for tangible and swift policy action”, has prompted the Global Forum to focus its activities on the development of principles to guide governments towards concrete policy solutions to reduce excess capacity. These principles have built on the contributions of all members and are the result of an intense discussion process.

35. The principles reflect the converging views of members upon three main areas: a) the acknowledgment of the global nature of the excess capacity challenge and the necessity of collective solutions; b) the importance of enhancing market function and encouraging adjustment; c) the need for improving transparency, review and assessment of market developments and steel policies. This broad convergence has led to an agreement on the following six principles:

- I. Global challenge, collective policy solutions
- II. Enhance market function (1): Refraining from market-distorting subsidies and government support measures
- III. Enhance market function (2): Fostering a level playing field in the steel industry
- IV. Enhance the market function (3): Ensuring market-based outcomes in the steel industry
- V. Encouraging adjustment and thereby reducing excess capacity
- VI. Ensuring greater transparency as well as review, discussion and assessment of the implementation of the Global Forum policy solutions

Members should take tangible and swift policy action on the basis of the following guiding principles

I. Global challenge, collective policy solutions

36. **Principle:** Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies and effective policy solutions to enhance the market function and reduce steel excess capacity. To support these, Forum members may set and publish goals, if appropriate.

37. **Rationale for the principle:** G20 Leaders' noted in the Hangzhou statement that excess capacity in steel and other industries is a global issue which requires collective responses. At the Hamburg Summit, G20 Leaders committed to further strengthening cooperation to find collective solutions to tackle this global challenge, and to take the necessary actions to deliver the collective solutions that foster a truly level playing field. Within this context, the enhancement of market function can lead to the closure of the most inefficient plants and therefore contribute to reducing excess capacity. Moreover, the enhancement of market function is essential to ensure that exchanges at the national and international level are based on genuine competitive advantages rather than on support received. Setting targets for reducing crude steel capacity can be an effective element of a national framework for reducing excess capacity, provided that policy actions focus not only on the amount of capacity to be reduced, but ensure the exit of inefficient plants and enhance the market function, addressing the underlying causes of excess capacity in a structural fashion.

II. Enhance market function (1): Refraining from market-distorting subsidies and government support measures

38. **Principle:** In order to ensure that the steel market operates under market principles, governments and government-related entities should refrain from providing market-distorting subsidies and other types of support measures to steel producers. These include subsidies and other government support measures that sustain uneconomic steel plants, encourage investment in new steelmaking capacity which otherwise would not be built, facilitate exports of steel products, or otherwise distort competition by contributing to excess capacity.

39. **Rationale for the principle:** G20 Leaders at their Summit in Hamburg urgently called for the removal of market-distorting subsidies and other types of support by governments and related entities. Indeed, steel industries in some countries benefit from subsidies and related government supports. Absent such subsidies and other government support, certain new steel facilities may not have been built and consistently loss-making steel plants would have exited the market. By promoting new investment and maintaining marginal mills, subsidies and government support measures contribute to excess capacity in the steel sector and cause market distortions affecting steel production, prices and trade. This shifts the burden of excess capacity adjustment to other countries. Policies that support exports and distort competition by contributing to excess capacity should be avoided and removed.

III. Enhance market function (2): Fostering a level playing field in the steel industry

40. **Principle:** Irrespective of ownership all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive directly or indirectly subsidies or other type of support that distort competition by contributing to excess capacity, and should follow the same regulations with economic implications and rules, including bankruptcy procedures. A level playing field should be ensured among steel enterprises of all types of ownership. Global

Forum members should also continue to fight protectionism including all unfair trade practices while recognising the role of legitimate trade defense instruments in this regard.

41. Rationale for the principle: Historically, the steel sector in many countries has had close links with the state and has been subject to significant levels of government intervention and influence. As the result, some enterprises can potentially benefit from different types of targeted government support that distort competition and the market function. Some of the key concerns relate to the undue advantages that selected enterprises can benefit from at the expense of other firms, including financial, regulatory and in-kind support. In such cases, steel products may end up being produced by those enterprises that receive the greatest advantage from the government, and not by those who can do it most efficiently. Such special treatment may therefore distort competition and generate inefficiencies that can, in turn, create a drag on productivity and the economic well-being of enterprises acting in the steel market.

IV. Enhance market function (3): Ensuring market-based outcomes in the steel industry

42. Principle: Open and competitive markets and a market-driven approach to resource allocation based on the competitive positions of steel enterprises should be the driving forces of the steel sector. New investment, production and trade flows should reflect market-based supply and demand conditions.

43. Rationale for the principle: The enhancement of market functioning in the steel sector is likely to facilitate adjustment following periods of economic downturn and would result in more efficient use of resources in steel-producing economies, with positive impacts on overall productivity and economic performance.

V. Encouraging adjustment and thereby reducing excess capacity

44. Principle: Wherever excess capacity exists, governments have a role in advancing policies that facilitate the restructuring of the steel industry while minimizing the social costs to workers and communities. Governments should ensure conditions exist for market based adjustment, by facilitating the exit of consistently loss-making firms, “zombie” firms, obsolete capacity facilities and firms not meeting environmental, quality and safety standards. This would lead to a net reduction of capacity.

45. Rationale for the principle: The persistence of excess capacity poses significant challenges to the industry’s profitability and long-term viability, while also exacerbating trade tensions. Facilitating the exit of inefficient and consistently loss-making firms as well as obsolete capacity and capacity that does not meet environmental regulations can bring about improvements in productivity and re-allocate resources to more productive uses.

VI. Ensuring greater transparency as well as review and assessment of the implementation of the Global Forum policy solutions

46. Principle: Recognizing that collective policy solutions and transparency are vital for market-based responses by the industry to changing conditions in the steel market, governments should on a reciprocal basis increase transparency through regular information sharing, analysis, review, assessment and discussion as well as regular exchanges about data

and concrete policy solutions, among the members of the Global Forum²². Governments should ensure that any relevant information on steelmaking capacity developments; supply and demand conditions as well as policy responses including support measures by governments and government-related entities is available on an on-going basis²³. Members should exchange information on the nature and extent of export credit agency support for new steel projects. The Global Forum will report to the G20 and to interested OECD countries being member of the Global Forum on progress.

47. Rationale for the principle: Addressing the problem of excess capacity and evaluating progress in light of the guidance provided by G20 Leaders at Hamburg requires greater transparency. Greater transparency about capacity developments and policies relative to the steel sector including restructuring, can foster collaboration and mutual understanding of the challenges of each economy to effectively deal with excess capacity and enhance steel market function.

48. In view of the notion that excess capacity in steel has an important global component, adherence to these principles would help alleviate excess capacity and prevent its re-emergence in the future in all member economies.

3.2 Policy recommendations

49. In line with the G20 Leaders' mandates at the Hangzhou and Hamburg Summits, the Global Forum provides the following recommendations for concrete policy solutions to reduce excess capacity and enhance market function in steel sectors. These policy solutions are expected to form the basis for tangible and swift policy action by enhancing the market function and encouraging adjustment and include according to the Hamburg communiqué the removal of market-distorting subsidies and other types of support by governments and government related entities and create favourable conditions to reduce excess capacity and limit additions to excess capacity. While acknowledging and fully mindful of WTO Agreements and supporting the WTO Agreement on Subsidies and Countervailing Measures, these recommendations cover all forms of support that distort competition. The Hangzhou and Hamburg mandates cover all market-distorting (1) subsidies and (2) other types of support provided by government or government-related entities. These should be eliminated in cases where they distort competition by contributing to excess capacity—as the Global Forum objective is precisely to address such excess capacity. This applies *mutatis mutandis* across all policy recommendations. Made in the G20 spirit of voluntary commitments, the policy recommendations include the guiding principles and further build on them as follows.

²² Review means that the Global Forum will meet at least three times per year to further discuss and assess this information, to ask questions and provide answers and share best practices thereon.

²³ Members will update this information two times per year and as it becomes available. Members are encouraged to provide updates on an on-going basis and as often as possible. The first update will be conducted one month prior to the first Global Forum meeting each year.

a) Framework conditions

Key recommendations (linked to principles I, II, III, IV, V):

1. Members should consider the extent to which their framework conditions and institutional settings ensure proper market functioning and policy objectives consistent with the need for reducing global excess capacity.
2. Particular attention should be given to ensure that: i) competition law, trade and investment policies, and other policies foster a level playing field for competition among companies irrespective of ownership, both domestically and internationally; ii) bankruptcy legislation is effective and procedures are expedited efficiently; iii) the internal financial market is able to price risk and deal with non-performing loans; iv) labour markets and social security systems adequately support adjustment, v) different levels of government do not have conflicting policy objectives and, vi) Procurement policies should not contribute to excess capacity.

50. Policy actions aimed at addressing excess capacity need to be seen in the broader context of existing framework conditions and institutional settings. Framework conditions need to be conducive to yielding the desired results from restructuring. A number of policy levers can be used to ensure competitive conditions in steel markets and provide the right incentives for resolving and preventing excess capacity.

51. Some of the broad policy considerations that are more directly relevant to addressing excess capacity in the steel sector include: i) trade and investment policy, with a view to removing barriers to trade and foreign direct investment; ii) competition law that ensures that all companies compete on a level playing field, irrespective of ownership, domestically and internationally; iii) bankruptcy legislation and other barriers to the exit of steel firms from the market; iv) financial market regulation aimed at addressing non-performing loans as well as working towards improved corporate reporting and transparency, which would help financial markets differentiate between efficient and inefficient firms more effectively; v) labour market regulation, and appropriate social security and pension systems that support adjustment; vi) social security and pension systems, by providing support for workers affected by adjustment, while at the same time ensuring the sustainability of the social welfare systems; and, vii) governance and policy coherence, ensuring that the incentives for addressing excess capacity are aligned between the different levels and agencies of government.

52. The key challenge is to coordinate the different policy levers to obtain a policy mix that is conducive to restructuring the steel sector while enhancing market function and ensuring competitive conditions. For example meaningful environmental regulations with effective enforcement, particularly if combined with market-based policy instruments, intensify the pressure on inefficient and polluting firms to improve their performance or exit, thus reinforcing industrial policy actions aimed at reducing excess capacity.

53. Procurement rules and practices should not contribute to excess capacity by preventing market-based outcomes or creating incentives to maintain or expand excess capacity, including through lack of transparency or procedural fairness.

b) Market distorting subsidies and other support measures by government or government-related entities

Key recommendations (linked to principles I and II, also in part to IV):

5. Members should remove and refrain from adopting market-distorting subsidies and other support measures provided by governments and government-related entities that encourage companies to undertake capacity expansion projects, maintain consistently loss-making or uneconomic steel plants in the market, or which otherwise distort the market.
6. All Members should expeditiously share data on market-distorting subsidies and other support measures by government or other government related entities. The proper implementation of subsidies and other support measures that facilitate permanent closures of steel facilities should be carefully analysed and follow strict guidelines.
7. Governments should remove and refrain from market-distorting subsidies and other support measures by government or government-related entities that contribute to excess capacity.
8. Governments may encourage innovations in the steel sector and implementation of best available technologies among steel producers irrespective of ownership insofar as this does not distort competition and contribute to excess capacity.

54. Subsidies and other forms of government support are often channelled to steel companies through a host of instruments. The more widely used instruments, according to the results of the information sharing exercise are, in decreasing prevalence of use: tax benefits, loans and debt instruments, cash grants, cash awards, cost refunds, and government-provided goods and services.

55. Most of these instruments and subsidies, in spite of their stated purpose, can cause excess capacity and negatively impact the sector's efficiency as well as fair competition among firms. However, the extent of their negative effects can vary greatly. Those subsidies that have a more immediate and direct impact on excess capacity, or which distort the market the most, should be avoided. This is particularly the case with respect to subsidies provided to companies with the purpose of developing or expanding net capacity, or to firms experiencing persistent financial difficulties and which should therefore exit the market. Conversely, subsidies that facilitate the permanent closure of capacity could be beneficial, but their proper implementation should be carefully analysed and follow strict guidelines.

56. Some governments may encourage innovations in the steel sector and the implementation of best available technologies among steel producers irrespective of their ownership. It is important to ensure that these initiatives are not used as loopholes through which unfair subsidies are channelled as they can distort competition and contribute to excess capacity.

57. In line with the G20 Leaders' mandates at the Hangzhou and Hamburg Summits, the Global Forum provides the following recommendations for concrete policy solutions to reduce excess capacity and enhance market function in steel sectors. Governments should remove and refrain from market-distorting subsidies and other types of support measures by governments or government-related entities that contribute to excess capacity. This is irrespective of the vehicles used for such measures, whether direct or indirect, or whether they are or are not subject to WTO agreements, and covers the value chain from inputs to the final

steel product. In cases in which they distort competition and contribute to excess capacity, such measures include, inter alia:

- Preferential financing inconsistent with market-based conditions, including debt forgiveness, guarantees and other transfers of liabilities, provision of guarantees or support given to an insolvent or ailing enterprise without a credible restructuring plan that enables the enterprise to return to long-term viability within a reasonable time, and/or without the enterprise significantly contributing to the restructuring costs. It also includes policy loans inconsistent with market consideration, whether through formal bank lending, bond market, asset sales to government, or other financial channels.
- Equity infusions and conversions (including debt-for-equity swaps) inconsistent with market-based conditions.
- Grants, awards and cost refunds.
- Tax exemptions, reductions, and credits.
- Assumptions of liabilities, administrative fees or other charges by governments or government-related entities, inconsistent with market considerations.
- Provision of goods and services by a government (for less than adequate remuneration) and input support throughout the value chain from inputs to the final steel product preferentially or at non-market rates, which have economic implications. This includes provision of land, energy, raw materials, utilities, services, quotas to export and other inputs. It also includes support through raw materials such as preferential access, dual pricing, and distortive financial practices.
- Distortive discretionary policy measures or non-application of market based policy measures. This includes export subsidies, tax rebates, quotas to import, local content support including to consumers or downstream industries, local content requirements, restrictions to inward investment or support to outward investment, misappropriation of intellectual property, price fixing and other anti-competitive practices, mergers and acquisitions at non-market conditions, isolation of domestic trading from international price arbitrage or separation of domestic from external price setting, lax enforcement of regulations affecting production or sale, and non-enforcement of bankruptcy regulations.

58. Some of these are further detailed below.

c) Fostering a level-playing field in the steel sector

Key recommendations (linked to principles I and III):

4. Irrespective of ownership, all enterprises acting in the steel market (whether privately-owned or directly or indirectly owned, fully or in part, by their governments or by government-related entities) should not receive subsidies or any other types of support that distort competition by contributing to excess capacity.
5. All enterprises acting in a country's steel market should follow the same rules and regulations with economic

implications, including bankruptcy procedures.

6. A level playing field should be ensured among steel enterprises of all types of ownership.

59. The steel sector has traditionally been characterised by its close relations to the state. Today, state-owned enterprises account for a large share of the world's steel production.²⁴ While there may be some rationale for state ownership in the steel sector, concerns have been raised regarding the potential lack of transparency and preferential treatment granted to state-owned steel enterprises. This may result in distortions in the international steel market and contribute to excess capacity. The burden of industry restructuring may also not be shared equally. Indeed, the results of the information sharing exercise indicate that the overwhelming majority of closures concerned privately-owned enterprises.

60. In order to ensure fair competition and a level playing field in the steel industry, it is important that all steel enterprises follow the same rules and reporting requirements. The information-sharing exercise indicated that approaches to regulating state-owned enterprises with respect to transparency, disclosure or enforcement can vary across member economies.²⁵ Therefore, there is a rationale for members to refer to common recommendations with respect to the operations of state-owned steel enterprises in their economies.

d) Fostering industry restructuring by assisting displaced workers

Key recommendations (linked to principles I and V):

5. Governments should favour active labour market policies which maintain and increase the employability of workers who are dismissed as a result of the restructuring.
6. Employment adjustment measures are an important instrument for addressing the social cost of restructuring. This should be provided as support to workers and should not constitute subsidisation to companies, which could maintain existing capacities in place.
7. The specific needs of older workers and other disadvantaged groups affected by restructuring should be taken into account to facilitate their transitioning into alternative occupations.
8. The effectiveness and efficiency of the measures should be evaluated.

61. Measures to support workers affected by the closure of steel plants serve the double purpose of alleviating the social cost of closure and smooth the political frictions of adjustment insofar as the employment consequences of restructuring are addressed. A number of issues should be borne in mind when designing such programmes. While in general such measures aim at mitigating the employment consequence of restructuring, governments should place particular attention that these measures are provided as support to workers and do not

²⁴ In 2016, 22 of the world's 100 largest steelmaking companies were state-owned enterprises. State-owned enterprises represented at least 32% of global crude steel output in 2016 (OECD, 2017).

²⁵ While recognising that Global Forum members may use different definitions for state-owned enterprises (SOEs), for the sole purpose of the GFSEC during its mandate, the term "state-owned enterprises" is understood to mean enterprises with state ownership of more than 10%. Where information based on alternative definitions has been provided by members this has been indicated in Annex 1.

constitute subsidisation to companies, which could maintain existing capacities in place. For instance, in the current context of excess capacity wage-topping mechanisms that delay redundancies in the hope of a recovery in the market should be avoided.

62. Moreover, to facilitate the re-employment of displaced workers, one overarching consideration should be that of linking the receipt of unemployment benefits to the active participation of the recipient in job search and training activities. Active labour market policies prevent displaced workers' skills to atrophy and allow them to develop skills that may be required in other occupations, thereby facilitating their return to the labour market. On the contrary, the provision of generous and long-lasting unemployment benefits or unemployment insurance might discourage job search and decrease the likelihood of re-employment.

63. Lastly, particular attention should be placed on the specific challenges faced by older workers and other disadvantaged groups in accessing to training opportunities and transitioning to alternative occupations.

e) Government targets

Key recommendations (linked to principle I, III, IV):

5. Steel excess capacity is a global issue which requires attention in a global format with broad participation of economies. To support these, Global Forum members may set and publish goals, as appropriate, to reduce excess capacity through legal and market methods. Capacity reduction targets should be accompanied by actions to eliminate policies that contribute to excess capacity, such as market-distorting subsidies and other types of support by government or government-related entities
6. The criteria for capacity reductions should, irrespective of ownership, simulate the process of market selection with consistently loss making or non-environmentally compliant firms being forced to exit the market. Ex post assessments of whether this is the case should be undertaken.
7. Government objectives to increase capacity should not be accompanied by market-distorting subsidies or other types of support by government or government-related entities that contribute to excess capacity, including input support to steel production.
8. Government targets should take into consideration demand conditions.

64. Some member governments have introduced targets to reduce or increase capacity. The introduction of capacity targets either to reduce capacity, limit new capacity additions or build new capacity should reflect market criteria to avoid creating market distortions as well as inefficiencies. Therefore member economies should exercise caution in introducing such targets.

65. With respect to targets to reduce capacity, the major challenge lies in identifying the appropriate criteria for selecting the plants that should be closed and in ensuring that the closure of the most inefficient plants takes place effectively and swiftly.

66. The setting of government targets to address excess capacity, if accompanied by the appropriate instruments to help meet those targets, can serve as an effective measure to address this challenge provided that actions to eliminate measures that contribute to excess capacity (e.g. market-distorting subsidies and other support measures provided by governments and government-related entities) are also taken. Implemented together, these can provide long-lasting solutions to excess capacity and help prevent its re-emergence in the

future. The establishment of criteria based on company/plant performance is more likely to simulate the process of market selection with consistently loss making or non-environmentally compliant firms being forced to exit the market. In contrast, criteria based on plant size may provide a rationale for realising economies of scale and therefore create unintended incentives for companies to invest in new capacity or to replace smaller with larger equipment. Moreover, in economies characterised by complex governance structures, the implementation of centrally designed targets may find political resistance at the local level which may in turn hinder effective implementation and assessment.

67. Government targets should take into consideration demand conditions. It is important to explore the interaction of national objectives to expand steelmaking capacities with the situation of excess capacity at the global level.

68. In the current context of excess capacity in the steel industry, increases of capacity should be purely based on market forces, and investors should ensure that they are economically sustainable in the long term. As such, government objectives to increase capacity should not be accompanied by subsidies or any kind of direct or indirect government support including input support to steel production. Fair international trade should play its full role in meeting expected increases in demand.

f) Issues related to mergers and acquisitions

Key recommendations (linked to principles I, II, and IV):

3. Mergers and acquisition should not contribute to excess capacity.
4. Any measures taken to encourage mergers and acquisitions need to be taken in accordance with effective competition law and market principles.

69. Some member governments are seeking to address the problem of excess capacity by actively promoting mergers and acquisitions (M&As), rather than relying solely on market forces. M&As and corporate reorganisation can help to address excess capacity if firms find synergies, focus on more efficient production units, and consolidate operations, including by closing less efficient ones. This approach may also facilitate financial restructuring modernising the most productive operations and financing the closure of inefficient units.

70. However, M&As do not necessarily guarantee that capacity will effectively be closed. A variety of obstacles can impede industry restructuring and capacity reduction through M&As. First, incentives are such that M&As are more likely to take place between efficient firms, where restructuring may not be needed. Second, M&As may escalate financial challenges because extremely large companies are more prone to moral hazard problems, namely that the merged company may have no incentives to correct inefficiencies and restructure if it is "too big to fail". M&As should respond to market signals, inter alia by enhancing efficiency.

71. Any policy actions towards M&As need to be taken in accordance with market principles and effective competition law. Concrete actions include for example eliminating unnecessary institutional barriers to M&As. The detection and enforcement of laws against collusive behaviour should be stringent and proposed mergers and acquisitions should be reviewed by the relevant competition authority.

g) Ensuring export credits do not contribute to excess capacity

Key recommendations (linked to principles I, II):

3. Members should refrain from issuing officially supported export credits for steel plants and equipment which contribute to the expansion of global steel capacity that would not otherwise take place but for such subsidisation or not be in line with global steel demand.
4. When such support is provided, the terms and conditions of officially supported export credits for steel plant and equipment should be transparent, reflect market pricing and practices, and take note of guidelines agreed among some members and on-going international negotiations. This will minimise the subsidisation associated with export credits, and thus avoid supporting the creation of additional steelmaking capacity.

72. Investment in steel facilities abroad should be an enterprise's autonomous action of global resource allocation, and the result of market economy development. However, government programmes that facilitate investments in steel facilities abroad may contribute to the global excess capacity problem in the steel sector, where they are not market driven. Some projects in the steel sector are financed by official export credits or official guarantees for such credits, whereby export credit agencies provide support to steel producers abroad in order to finance equipment for their steel production projects.²⁶ In the absence of such support, some steel projects would not take place due to the lack of private financing. This may particularly be the case when business conditions are difficult and long-term prospects subdued in the steel sector, as they currently are in light of the sector's significant excess capacity.

73. In order to exclude the potential of subsidisation associated with export credits, and thus avoid promoting additional steelmaking capacity that would not otherwise be built but for such subsidisation, the terms and conditions of officially supported export credits for steel plant and equipment should reflect market pricing and practices, and take note of guidelines agreed among some members and on-going international negotiations.

h) Enhance transparency

Key recommendations (linked to principle VI):

3. Members should regularly update the information on sectoral trends (incl. capacity developments and production) and policy measures.
4. The Global Forum should regularly analyse, review, assess and discuss how the provided information aligns with the agreed principles.

74. In the light of the aforementioned key policy recommendations in the mentioned policy areas, members should enhance transparency to allow a follow-up of the implementation of recommendations. Transparency should be ensured particularly with respect to the swift policy action undertaken to address excess capacity and to the removal of market-distorting subsidies and other types of support by governments and related entities.

²⁶ Official support for export credits includes direct credit/financing, refinancing, interest rate support, guarantee or insurance.

75. To ensure a solid information basis, members agree to improve the completeness and accuracy of the information on their existing policies at all levels of government. Members of the Global Forum also agree to further enhance transparency, through regular exchange of information for review, analysis and assessment at each meeting of the Global Forum. More specifically, members agree to share updated information on capacity and other market developments in their respective economies to inform the discussion at the meeting. Members also agree to share information on changes that have occurred in their policies, either regarding the cancellation or update of policies that were already in place or the introduction of new policies. These updates will include a detailed description of the policy as well as a self-assessment of how the policies that were introduced, updated or cancelled align with the agreed principles. The updates will be discussed and reviewed during the Global Forum meetings. The foregoing will be done through the process defined in guiding principle VI.

i) Continue the process of the Global Forum

Key recommendations:

6. The Global Forum will meet at least three times per year to further discuss, assess and review this information, to ask questions and provide answers and share best practices thereon. The Argentinian G20 presidency foresees to hold 3 meetings in 2018.
7. As the priority for 2018, the Global Forum members should swiftly and fully apply the agreed principles and recommendations.
8. In the first half of 2018, members of the Global Forum will share information on the steps taken to eliminate market-distorting subsidies and other types of support by governments and related entities, as well as tangible and swift policy action for their removal.
9. The Global Forum should share best practices of steel industry adjustment and exchange experiences on new sources of steel demand.
10. The Global Forum will report on the process and concrete results in addressing excess capacity to G20 and to interested OECD countries being member of the Global Forum.

76. Members will update any relevant information on steelmaking capacity developments; supply and demand conditions as well as policy responses including support measures by governments and government-related entities two times per year²⁷, the first update being conducted one month prior to the first Global Forum meeting each year. The Global Forum will meet at least three times per year to further discuss, assess and review this information, to ask questions and provide answers and share best practices thereon. To keep the work of the Global Forum going and ensure the transparency exercise can be properly implemented, the Argentinian Presidency will schedule three Global Forum meetings in 2018. Members will submit updated information on capacity and policies, including enhancement of market function, adjustment and government targets for members applying them.

77. The six principles agreed by members of the Global Forum will guide government policies in the direction of alleviating excess capacity in the steel sector. As a next step the Forum should focus on swift and effective implementation of the policy recommendations.

²⁷

Members are encouraged to provide updates on an on-going basis and as often as possible.

Ministerial Report

G20 Global Forum on Steel Excess Capacity Ministerial Meeting
20 September 2018, Paris, France



78. In addition, some of the established policy recommendations may warrant further development. For example, members should provide further details as to the process and timing of removal of market-distorting subsidies and other kinds of support by government or government related entities. The Global Forum will work towards completion of this work by the first half of 2018.

79. In addition, in the coming months, members should work together to develop a common understanding of industry adjustment, share best practices and also exchange experiences on fostering sustainable steel demand.

80. The Global Forum will prepare a substantive report addressed to G20 and to interested OECD countries being member of the Global Forum. The report will pay particular attention to the concrete outcomes of the Global Forum's work regarding reduction in overcapacity, swift policy action undertaken to address excess capacity and to the removal of market-distorting subsidies and other types of support by governments and related entities.

ANNEX 2. SUMMARY OF THE RESULTS OF THE INFORMATION SHARING AND OF THE REVIEW PROCESS

This annex provides additional information that complements the body of the report.²⁸

1. Summary of information sharing Part 1: steelmaking capacity developments

4. In Part 1 of the information sharing exercise, GFSEC members agreed to share information on steelmaking capacity developments in their economies by providing information on existing capacities, new additions and closures of capacity from 2014 to the latest completed year of the Forum (2017) at the aggregate and at the disaggregated level. More specifically, members have agreed to share aggregate level figures for existing capacity, new additions and closures including details concerning the number of plants to which the aggregate figures refer, and a breakdown of these capacities by production process. In addition, members have also agreed to share details with other members that provided the same level of information on their existing capacities, new additions and closures at the disaggregated level up to the level of the individual plants present in their economy.

5. In the first round of information sharing in 2018, 32 out of 33 members of the GFSEC shared data on aggregate capacity, additions and closures for 2017, as well as disaggregated (plant or site level) data for 2017²⁹. They also updated the figures for 2014-16 where necessary. China also shared information on its plans to further reduce 30 mmt of capacity in 2018.

6. The 33 members of the GFSEC account for the vast majority of the world's capacity. In 2017, the total combined capacity reported by the 33 GFSEC members amounted to 1 977.8 mmt, according to the updated information shared by members in early 2018. This updated figure reflects a decline of 51.6 mmt compared to the levels of 2016 corresponding to a 2.5% reduction in relative terms. With capacity of 1018.3 mmt in 2017, China accounted for the largest share of existing capacity within the GFSEC in the year 2017 (51.5%), followed by the European Union (11%), India (6.8%), Japan (6.7%), the United States (5.7%), the Russian Federation (4.3%), Korea (4.1%), Turkey (2.6%), Brazil (2.6%) and Mexico (1.5%).

7. The decline in the combined capacity of GFSEC members in 2017 reflects the evolution of capacity in few members. In particular, China, the European Union, Japan and Turkey indicated declines in capacity in 2017 compared to 2016, while Argentina and India reported increases. Most members, however, did not experience any change in capacity in 2017 relative to 2016.

8. The updated figures reported by GFSEC members indicate that the combined capacity decline of 51.6 mmt in 2017 builds on the reductions registered in 2016 when capacity declined by 42.9 mmt from the previous year. This followed slight growth in capacity in 2015 of nearly 3 mmt compared to 2014.

²⁸ Under the aegis of the Chair a second round of information sharing was launched in the beginning of July 2018 and is still on-going. Members were invited to complete and update answers to the questionnaire and ensure that the 2014-2017 period is covered. This annex is not based on the data from the second round which has not yet been reviewed.

²⁹ Missing data provided on September 19th.

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9. Comparing capacity levels in 2017 with those in 2014, large capacity decreases were reported specifically in China (110 mmt) and in the European Union (12.2 mmt). Reported steelmaking capacity also decreased in Japan by 3.9 mmt, in the United States by 1.2 mmt and by 0.7 mmt in South Africa. In relative terms, steelmaking capacity declined by 9.8% in China, by 6.8% in South Africa and 5.3% in the European Union. Increases over the same period were registered by India (24.8 mmt) and to a lesser extent in Brazil (4.0 mmt), Mexico (3.0 mmt), Turkey (1.0 mmt), Indonesia (1.2 mmt) and Argentina (0.8 mmt).

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Table 1. GFSEC figures for crude steelmaking capacity in GFSEC member economies: 2014- 2017

(1000s metric tonnes)

By GFSEC member	2014	2015	2016	2017	Change (volume) 2014-2017	Change (%) 2014- 2017
China	1,128,510	1,126,880	1,073,330	1,018,330*	-110,180*	-9.8%*
European Union, of which**:	228,894	221,494	217,917	216,662	-12,232	-5.3%
Germany	51,551	51,551	50,751	50,691	-860	-1.7%
Italy	38,606	36,206	36,206	36,456	-2,150	-5.6%
France	22,021	22,021	21,941	21,906	-115	-0.5%
Spain	20,310	20,310	19,610	18,860	-1,450	-7.1%
Poland	12,560	12,560	12,560	12,560	0	0.0%
United Kingdom	15,147	11,247	11,252	11,252	-3,895	-25.7%
Austria	8,595	8,595	8,595	8,595	0	0.0%
Belgium	8,720	8,720	8,500	8,500	-220	-2.5%
Netherlands	7,260	7,260	7,000	7,000	-260	-3.6%
Sweden	5,950	5,950	5,950	5,950	0	0.0%
Slovak Republic	5,520	5,520	5,520	5,520	0	0.0%
Finland	4,530	4,530	4,530	4,530	0	0.0%
Greece	4,260	4,260	4,260	4,260	0	0.0%
Luxembourg	3,322	3,322	2,400	2,400	-922	-27.8%
Hungary	2,650	2,650	2,050	2,050	-600	-22.6%
India	109,851	121,971	128,276	134,660	24,809	22.6%
Japan	136,268	135,679	134,447	132,411	-3,857	-2.8%
United States	113,950	111,775	112,771	112,771	-1,179	-1.0%
Russia	84,854	84,854	85,354	85,354	500	0.6%
Korea	79,964	80,244	80,744	80,744	780	1.0%
Turkey	50,213	50,439	51,506	51,181	968	1.9%
Brazil	47,412	47,457	51,450	51,450	4,038	8.5%
Mexico	26,555	29,105	29,505	29,505	2,950	11.1%
Canada	17,342	17,467	17,467	17,467	125	0.7%
Indonesia	10,939	10,939	12,139	12,139	1,200	11.0%
Saudi Arabia	10,441	10,441	10,441	10,441	0	0.0%
South Africa	10,310	9,610	9,610	9,610	-700	-6.8%
Argentina	6,532	6,650	6,650	7,300	768	11.8%
Australia	5,570	5,570	5,570	5,570	0	0.0%
Switzerland	1,370	1,370	1,370	1,370	0	0.0%
Norway	800	800	800	800	0	0.0%
GFSEC total	2,069,775	2,072,745	2,029,347	1,977,765	-92,010	-4.4%

* Based on the provisional figure for capacity.

** The European Union's figure includes the capacities of all the European Union Member States

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10. Regarding new additions of capacity, all 33 members of the GFSEC shared data on aggregate capacity additions for 2017 (Table 2). In 2017, new capacity additions were reported in India (6.4 mmt), Argentina (0.7 mmt), the European Union (0.5 mmt), Japan (0.2 mmt), Saudi Arabia (0.1 mmt) and Turkey (0.1 mmt).

11. New additions of crude steel capacity among GFSEC member economies totalled 100 mmt between 2014 and 2017. China accounted for the largest share, with new additions amounting to 42.1 mmt during this period, i.e. 42.2 % of the total, followed by India with 32.4 mmt (32.25% of the total). Additions were also registered in Mexico (4.7 mmt), Brazil (4.2 mmt), Indonesia (3.4 mmt), Turkey (2.6 mmt) and the European Union (2.2 mmt), with several other GFSEC members reporting total additions below 2 mmt between 2014 and 2017.

12. Overall, the analysis indicates that the pace of new capacity additions seems to have slowed for the GFSEC as a whole recently. Over the examined period, the volume of total new capacity additions changed from 36.3 mmt in 2014 to 7.9 mmt in 2017.

Table 2. New capacity additions in GFSEC member economies 2014- 2017

(1000s metric tonnes)

Economies with new additions	2014	2015	2016	2017	total
China	22,580	19,480	0	0	42,060
India	7,591	12,120	6,305	6,385	32,401
Mexico	1700	2550	400	0	4,650
Brazil	0	0	4,200	0	4,200
Indonesia	150	180	3,050	0	3,380
Turkey	974	298	1,242	83	2,597
European Union, of which*:	1700	0	5	450	2,155
Poland	1,700	0	0	0	1,700
Germany	0	0	0	200	200
Italy	0	0	0	250	250
United Kingdom	0	0	5	0	5
Japan	1100	664	0	206	1,970
Korea	0	1,100	700	0	1,800
United States	0	0	1,450	0	1,450
Saudi Arabia	200	250	600	100	1050
Argentina	192	118	0	650	960
Russia	0	0	500	0	500
South Africa	0	120	180	0	300
Canada	125	0	0	0	125
GFSEC total	36,312	36,880	18,632	7,874	99,698

* The European Union's figure includes all the European Union Member States

13. With respect to capacity closures, all 33 members of the GFSEC shared data on aggregate closures of capacity in 2017 (see Table 3). One member, China, provided a

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minimum threshold (at least 55 mmt) for closures in 2017³⁰. The European Union and Japan also recorded closures in 2017, of 1.4 mmt each, while Turkey registered the closure of 0.4 mmt of capacity.

14. Between 2014 and 2017, approximately 200 mmt of capacity were closed in GFSEC member economies. In absolute terms, the majority of these closures took place in China (168.2 mmt), while the European Union witnessed the closure of about 14.9 million metric tonnes. Substantial closures of capacity also took place in Korea (5.7 mmt), Japan (5 mmt) and the United States (2.6 mmt).

Table 3. Permanent capacity closures in GFSEC member economies 2014- 2017

(1000s metric tonnes)

Economies with closures	2014	2015	2016	2017	total
China	31,130	17,060	65,000	55,000*	168,190*
European Union, of which*:	1,685	7,400	4,382	1,445	14,912
United Kingdom	0	3,900	0	0	3,900
Germany	1500	0	800	200	2,500
Italy	0	2,400	0	0	2,400
Spain	0	0	700	750	1,450
Luxembourg	0	0	922	0	922
Hungary	0	0	600	0	600
Netherlands	0	0	260	0	260
Belgium	0	220	0	0	220
France	0	0	80	35	115
Korea	4,700	820	200	0	5,720
Japan	896	1,253	1,482	1,400	5,031
United States	450	2,175	0	0	2,625
India	481	262	481	420	1,644
South Africa	0	1,000	0	0	1,000
Turkey	0	72	175	408	655
Brazil	0	0	210	0	210
GFSEC total	39,342	30,042	71,930	58,673	199,987*

*In the case of China, 2017 figures are preliminary and trends are estimated

**The European Union's figure includes all the European Union Member States

Remaining gaps and improvements on Part 1

15. The submission of the final aggregate data on existing capacity and closures will enable a thorough examination of capacity developments in 2017.

13. Full updates of the disaggregated information relative to existing capacities, new additions and closures for the year 2017 will help take the work forward and underpin future GFSEC policy discussions. Doing so will ensure that all Forum members meet their

³⁰During the meeting China provided an update relative to its aggregate capacity closures noting that an aggregation of submitted local data shows the reduction of crude steel capacity in 2017 to be over 55 million tons.

commitments emanating from principle VI and recommendation h) of the Berlin Ministerial report.

Salient outcomes of the review process

16. While limited by the aforementioned gaps, the review process scrutinised the available data and trends in a rich exchange. In the naturally continuous review process, a number of salient points came out from the March and June discussions of the GFSEC.

17. Chinese data attracted significant attention as the country is the largest producer, with around 45% of global capacity. China presented the latest available figures, showing the aforementioned further decrease in capacity as a result of its continuing efforts to reduce excess capacity. China indicated it had set ambitious targets and called on others to do the same. Members regretted not having received confirmed aggregated data and disaggregated data for 2017, and underlined the importance of meeting fully and urgently the Berlin Ministerial report commitments. They sought several clarifications regarding the available data and, while welcoming the relevance of the cumulated capacity reduction in 2016 and 2017, stressed the importance of ascertaining what the net effect of these reductions is. Through further written exchanges, China clarified that the process of replacement did not result in any addition of capacity in 2016 and 2017. Additionally, the discussion highlighted some discrepancies between aggregated and disaggregated data in the previous submission to the Global Forum. China responded that such discrepancies were the result of different data sources and timing for data collection.

18. The discussion equally brought to light that certain jurisdictions had not contributed to the global increase in capacity, yet were obliged to reduce their own capacity in the 2014-2017, and/or face severe economic and employment impacts. This is the case for example of the European Union, Japan and South Africa.

19. India presented a paper regarding its plan to increase capacity in view of forecast demand conditions. Certain members underlined the importance of boosting demand and the Chair highlighted that discussion will take place within the framework of policy recommendation i.4 of the Berlin Ministerial report. However, the trends depicted by experts in the rich open session of the Forum meeting confirm subdued long-term demand, which would not solve the problem of excess capacity. The welcome reduction in global capacity has contributed to some narrowing of the gap between global capacity and production and generated a modest recovery in the steel market. But the balance of the discussion indicates that this adjustment falls short of alleviating global excess capacity, calling for urgent, accelerated actions to reduce it, in line with the guiding principles and policy recommendations of the Berlin Ministerial report. This would require further collective efforts, which should be discussed by the GFSEC as a matter of urgency.

20. Also with a view to learning from past experiences, Members examined steelmaking capacity developments using OECD data³¹ over the period that preceded the recent excess capacity surge. An analysis of steel market developments in the individual economies participating in the GFSEC paints a picture of significant heterogeneity across jurisdictions since 2000, a decade and an half before the world steel markets reached their nadir in 2015.

³¹ OECD data are available through the OECD Steelmaking Capacity Portal at oe.cd/steelcapacity.

19. While Chinese steelmaking capacity has declined significantly in recent years, in 2017 it was at a level that is approximately 898 mmt greater than that prevailing in 2000 according to OECD figures.³² Smaller but substantial increases (above 30 mmt) can also be observed in the case of India, Korea and Turkey, corresponding to 94.2 mmt, 35.8 mmt, and 32.3 mmt, respectively, during the same time period. Compared to 2010, capacity in China is up by 247.6 mmt, equivalent to an increase in relative terms of 30.9%. In comparison with 2010, economies where steelmaking capacity also increased included India (50.2 mmt or an increase of 64.3%), Turkey (9.4 mmt or an increase of 22.1%) and Korea (8.9 mmt or an increase of 11.7%) .

20. Capacity in member economies was still up by 313 mmt in 2017 compared to the level existing in 2010, by 807 mmt compared to the level of 2005 and by 1 098 mmt compared to the level of 2000³³, widely outpacing the increase in demand for steel³⁴. Trends here differed amongst members. While some like the European Union, Japan and the United States reduced capacity as compared with any of these reference points, others like China increased capacity significantly. For example, as compared to 2000, the latter's increase in capacity was 898 mmt, while over the same period domestic demand increased by 592 mmt in crude steel equivalent terms.

21. Examining the evolution of demand at the economy level, using figures from the World Steel Association, shows that apparent steel use has increased substantially in some economies since 2010, while in others it has remained essentially flat. The largest increases in apparent steel use were registered in China, where it was up by 117.8 mmt (in crude steel equivalent terms) in 2017 compared to 2010, in India (30.8 mmt), in the United States (16.7 mmt), in the European Union (14 mmt) and in Turkey (13.2 mmt). The gap between global capacity and steel demand, which in 2000 was 201.4 mmt, stood at around 482.7 mmt in 2010. It then increased for several years thereafter, reaching a peak above 700 mmt in 2015, and has receded somewhat since then. In 2017, the gap is estimated to have reached approximately 595 mmt.

21. All in all, the evidence from the last decade confirms the existence of an apparent disconnect between capacity and market developments, driving the excess capacity situation to its current levels. For the situation to be addressed in a sustainable way, the GFSEC suggests to continue and accelerate the pace of capacity reductions, and explore the need for additional reductions where appropriate. Moreover, to ensure that excess capacity is not exacerbated by the capacity increases that are expected to take place in some member economies, and in line with paragraph 68 of the Berlin Ministerial report, members of the Forum should work together to ensure that: a) capacity increases are not linked to any form of government support, b) demand considerations are duly taken into consideration and c), open fair trade can play its full role in fulfilling the expected increases in demand.

2. Overview of government policies and support measures in place in GFSEC economies

22. During the information sharing in the first half of 2018, GFSEC members were asked to provide responses to the updated GFSEC questionnaire for information sharing addressing

³² See DSTI/SC(2018)2/REV1, forthcoming on the OECD Steelmaking Capacity Portal at oe.cd/steelcapacity.

³³ Ibid.

³⁴ For crude steel demand, see the World Steel Association's Statistical Yearbooks, versions 2008 and 2017, and the tables therein on apparent steel use (crude steel equivalent), available at www.worldsteel.org.

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the policy recommendations approved at the November GFSEC Ministerial meeting. This section provides a summary of the existing measures and practices reported by GFSEC members in the following policy areas: i) framework conditions; ii) market distorting subsidies and other support measures; iii) fostering a level-playing field in the steel sector; iv) fostering industry restructuring by assisting displaced workers; v) government targets; vi) issues related to mergers and acquisitions; and vii) officially supported export credits for goods and services associated with crude steelmaking projects. It also includes an overview of the best practices for steel industry adjustment and experiences on new sources of steel demand that were shared by members. The details of the reported policies and measures are provided on a dedicated GFSEC password-protected web-platform.

Framework conditions

23. All members provided explanations regarding i) the framework conditions and institutional settings that ensure proper market functioning and competitive conditions in their steel market; ii) trade and investment policies that contribute to the removal of barriers to trade and foreign direct investment; and iii) the aspects of competition law that ensure that all companies compete on a level playing field, irrespective of ownership, domestically and internationally. All members also provided information on financial market regulations in place to address non-performing loans and explained how labour market regulations, social security and pension systems support adjustment in a way which does not contribute to excess capacity, while ensuring the sustainability of the social welfare systems.

24. Several members (*the European Union, India and South Africa*) responded provided information on steel companies that are in a state of bankruptcy in their economies. The EU provided information on five companies that were or are currently under bankruptcy proceedings. India provided information on six companies that are undergoing proceedings under the Insolvency and Bankruptcy Code. South Africa provided information on one company that was in a state of bankruptcy.

25. Turning procurement rules applicable to the steel sector, the majority of members (Australia, Canada, China, EU and its member states, India, Indonesia, Japan, Mexico, Norway, South Africa and the United States) have provided information on their relevant rules and practices.

Market distorting subsidies and other support measures by government or government-related entities and steps taken to eliminate them

Preferential financing inconsistent with market-based conditions

26. All members but two (*Canada and the United States*) reported that they do not have in place preferential financing inconsistent with market-based conditions. Canada reported a loan that was provided by the government of Ontario to Stelco to support retirees' other post-employment benefits (OPEBs) and a loan provided to Algoma by the federal government and provincial government of Ontario to support production upgrades, technology adoption and the installation of a new steel refining station.

27. The *United States* reported a loan that was provided to Big River Steel as part of a package of incentives provided by the State of Arkansas in 2014 to encourage capital investment and job creation in the state.

28. *China*, in its comments under this question, indicated that from 2014 to 2017, the Ministry of Finance of PRC did not introduce fiscal and tax subsidies or supporting measures targeting specifically the steel industry, which may distort markets and contribute to excess capacity in the steel industry. China specified that RMB 100 billion worth of funds for steel and coal industry restructuring has been set to resettle workers. China specified that this support measure is not a subsidy distorting the market. It was also noted that according to China's Commercial Bank Law external agencies (government or government-related agencies) do not participate in bank loan decision-making. China further explained that there are no market-distorting subsidies and other policy supporting measures for the steel industry by banks and other financial institutions in China and provided comments on the specific measures listed in the question such as debt forgiveness; guarantees; provision of guarantees or support given to an insolvent or ailing enterprise without a credible restructuring plan that enables the enterprise to return to long-term viability within a reasonable time, and/or without the enterprise significantly contributing to the restructuring costs; policy loans inconsistent with market consideration, whether through (a) formal bank lending; (b) the bond market; (c) asset sales to government; or (d) other financial channels. Further details are available in China's answer on the GFSEC internal web-platform.

29. *Korea* in its comment indicated that there is no specific case of preferential financing that contradicts market based conditions.

Equity infusions and conversions (including debt-for-equity swaps) inconsistent with market-based conditions

30. All 33 members indicated that no such measures are in place in their economies. China provided further information explaining that there are no equity infusions inconsistent with market consideration in China and provided details about the existing framework.

Direct transfers

31. All members but one (the *United States*) indicated that they do not have the relevant measures - grants, awards and cost refunds - in place in their economies. The *United States* provided information on the grants that were provided to Big River Steel by the State of Arkansas for site preparation and for subsurface stabilization as part of the construction project of the steel mill in Mississippi County. The support provided by the State of Arkansas amounted to 0.5 percent of the project's total \$1,300 million cost.

32. With respect to direct transfers in the form of grants, awards and cost refunds reported by China it specified that these support measures are not provided at the central level of government, and information was submitted with respect to measures provided at the local level of government and additional information is being collected.

Tax benefits

33. Three GFSEC members indicated that they have tax benefits in place. More specifically, information on tax reductions was provided by Australia, China and the United States. China also provided information on tax credits and tax exemptions.

34. *Australia* declared a payroll tax relief provided to BlueScope Steel by the New South Wales (NSW) State Government to help secure its Port Kembla operations.

35. *China* in its comment indicated that the Enterprise Income Tax Law of the People's Republic of China stipulates conditions and ways for enterprises to enjoy preferential tax treatment. China also specified that although the enterprises in the steel industry may actually enjoy preferential tax policies, there are no steel-specific preferential policies. China also provided information on tax credits and tax exemptions. With respect to tax credits China indicated that the commercial banks are neither governmental institutions nor public institutions that perform government duties. China also added that credits given by banks are commercial decisions without interference from the Chinese government. Turning to the tax exemptions, China specified that its government levies income tax and other indirect taxes on enterprises in accordance with law. China also added that since the implementation of the new Income Tax law of 2008, many exemption policies have expired.

36. The United States reported tax reductions in favour of Steel Dynamics and Gerdau Ameristeel that were provided in 1998 and 2005 respectively. The tax benefits reported by the United States were instituted before the 2014-2017 period covered by the GFSEC review. The United States specified that these measures were listed in the spirit of transparency, and because they may be ongoing (within the identified value quantification).

37. While South Africa indicated “no” for all listed subsidies, it explained in its comments that incentives including tax incentives are available to all sectors of the economy subject to certain criteria including upgrading, innovation, improving competitiveness, efficiency, skills development, value added and are not specific to the steel sector.

Assumption of liabilities, administrative fees and other charges by governments or government-related entities inconsistent with market considerations

38. No member has reported these types of support measures. China further specified in its comments that its government shall not bear liabilities, administrative expenses and other expenses for enterprises in line with the existing laws.

Provision of goods and services by government and input support

39. Only one member (*Canada*) provided information on this support measure, noting one measure in place at the provincial level. More specifically, Canada reported a government assistance measure, by the provincial government of Québec, in the form of reduced electricity costs provided to the businesses billed at the large power industrial rate (Rate L) that carry out an eligible investment project.

40. While China indicated “no” for all listed measures, as other GFSEC members, it did provide certain information on its existing framework and practices with respect to 1) the provision of goods and services by a government (for less than adequate remuneration) which have economic implications; 2) input support throughout the value chain from inputs to the final steel product preferentially or at non-market rates, which have economic implications through the provision of (a) land; (b) energy, (c) utilities, (d) public services (electricity, water and other public services) and (e) quotas to export. China also provided comments on input support throughout the value chain from inputs to the final steel product preferentially or at non-market rates, which have economic implications through the provision of (g) raw materials; support through raw materials via (a) preferential access, (b) dual pricing, and (c) distortive financial practices.

Distortive discretionary policy measures or non-application of market based policy measures

41. One member (*China*) declared measures under this question. China reported one measure in place, tax rebates, but noted that, according to the Annex I to GATT on the Notes and Supplementary provisions on Article XVI, the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy. Moreover, China noted that VAT Export Rebates is also a common practice normally taken by various countries. China indicated “no” for other listed measures, but provided comments on the existing regulatory framework and practices with respect to these measures.

42. *South Africa* in its comment indicated that support for the local use of designated products in state procurement is in terms of WTO provisions. South Africa further specified that the measure is not specific to the steel sector and is not market distorting.

43. *Indonesia*, in its comments, indicated that the regulation regarding import provisions for iron or steel, alloy steel, and its derivatives, which was reported last year, was amended. The amended new regulation is expected to ease importation of capital and raw goods (steel and iron) for the development of the domestic industry.

Fostering a level-playing field in the steel sector

46. Responding to the question on whether all companies in the steel sector, irrespective of ownership, are subject to the same rules and regulations including those related to transparency, disclosure, enforcement, competition and bankruptcy procedures, the majority of GFSEC members indicated that the companies in their jurisdictions are subject to the same rules and regulations. Some members provided further information regarding their legal framework and existing practices.

47. The majority of members indicated that there are no companies in their economies which have been or are in contravention of such rules (including environmental and quality rules) or are technically bankrupt. The *European Union* provided information on five companies that were in a state of bankruptcy in the period 2014-2017 specifying that none of these companies have received subsidization to prevent them from exiting the market. *South Africa* provided information on one steel company that was technically bankrupt and not compliant with environmental rules.

Fostering industry restructuring by assisting displaced workers

48. Four GFSEC members (Australia, China, the European Union and the United States) indicated that they have taken employment adjustment measures for addressing the social cost of restructuring. For instance, Australia provided information on its *Jobactive service*, which allows retrenched workers to retrain and find new employment as well as information on *Structural Adjustment Packages* that allow retrenched workers from certain eligible companies in specific industries to receive extra support. China provided information on its restructuring and employment adjustment measures under the *Opinions of the State Council on Resolving Overcapacity and Difficulties in the Steel Industry*.

49. The European Union shared information on relevant measures under the *European Globalisation Adjustment Fund (EGF)* and the *European Social Fund*. It was also specified that

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in line with the EU measures that were adopted by the EU Member States, financial and technical support is provided directly to workers and does not subsidise companies. The United States provided information on the *Trade Adjustment Assistance Program (TAA Program)*, which provide assistance to workers who have been adversely affected by foreign trade. The program allows workers to obtain skills, credentials, resources, and support necessary to build or rebuild skills for future employment and as such benefits workers rather than employers, and therefore does not constitute subsidisation to companies.

Government targets

50. One member (*China*) indicated that specific targets for reducing crude steel capacity at the economy-wide level have been set by its government in the period 2014-2017. More specifically, China provided information on targets that were set by government in 2016, 2017 and 2018 (45 mmt, 50 mmt and 30 mmt respectively). No member has reported targets for reducing crude steel capacity at the sub-central level in the period 2014-2017.

51. Turning to the specific targets for increasing crude steel capacity that have been set in the period 2014-2017, one member (*Indonesia*) has reported such targets. More specifically, Indonesia reported a target of 25 mmt, which was announced in 2015 and which is applicable for the period 2015-2035. Indonesia explained that development of infrastructure and construction are expected to create significant demand for steel in the economy.

Issues related to mergers and acquisitions

52. The majority of GFSEC members (Australia, Brazil, Canada, China, the European Union and its member states, India, Japan, Russia, South Africa and the United States) indicated that there were mergers and acquisitions in the steel sector in their economies in the period 2014-2017 with the largest number of M&As reported by China and the European Union (34 and 15 transactions respectively). Table 4 provides an overview of the reported M&A transactions.

Table 4. Reported M&A transactions by GFSEC members

Member	Reported M&A transactions
Australia	GFG Alliance
Brazil	- Merger of V&M do Brasil (Belo Horizonte – MG plant) with Vallourec & Sumitomo Tubos do Brasil (Jeceaba – MG plant); - ThyssenKrupp Companhia Siderúrgica do Atlântico (Rio de Janeiro – RJ) acquisition by Ternium - Votorantim Siderurgia (Barra Mansa and Resende – RJ plants) acquisition by ArcelorMittal.
Canada	Stelco acquisition by Bedrock Industries
China	- Acquisition of Dongbei Special Steel Group by Shagang Group - JFE Steel Co., Ltd., Kawasaki Steel Pipe Co., Ltd., Itochu Marubeni Iron & Steel Co., Ltd., and Itochu Marubeni Hong Kong Cable Co., Ltd. established a joint venture with Shuanhwa Industrial Co., Ltd. - Anselm Mittal American Cable Company and Nippon Steel Co., Ltd. acquired 100% of ThyssenKrupp Steel USA Co., Ltd. - JFE Containers Co., Ltd., Itochu Marubeni Iron & Steel Co., Ltd., and Itochu Marubeni Hong Kong Co., Ltd. established a joint venture, Jiefuyi Metal Containers (Jiangsu) Co., Ltd. - ThyssenKrupp acquires Terni Stainless Steel Plant and affiliated companies from Otonipol, Finland - SKF (China) Co., Ltd. and Wuhan Iron & Steel Heavy Industry Group Co., Ltd.

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	- established a joint venture - ArcelorMittal Gongwari Brazil and Mitsui & Co., Ltd. acquired control of Brazil M Steel Company - Ansteel and Kobelco invest to establish Ansteel Kobelco Cold-Rolled High-Strength Automotive Steel Plate Co., Ltd. - Nisshin Steel Co., Ltd., Itochu Marubeni Iron and Steel Co., Ltd., Itochu Marubeni Hong Kong Co., Ltd., and Huaxindun Industrial Co., Ltd. jointly funded the establishment of a joint venture in Pinghu City, Zhejiang Province, China. - Meida Wang and Mitsui & Co., Ltd. establish a joint venture in Japan - Abu Dhabi State-owned Investment Corporation, JFE Steel Co., Ltd. and Itochu Marubeni Iron & Steel Co., Ltd. Newly established a joint venture - Ansteel Group acquired shares in Lianzhong (Guangzhou) Stainless Steel Co., Ltd. and Liyang (Guangzhou) Iron and Steel Co., Ltd. - Hebei Iron and Steel Group Co., Ltd. acquired shares in Dega International Trade Holding Company - Shandong Iron & Steel Group Co., Ltd. acquired shares in Tangkelili Iron Mine Co., Ltd. - Valin ArcelorMittal Automotive Panel Co., Ltd. and Gonvarri Holdings Inc. established a joint venture - Pansteel Group Xichang Steel Co., Ltd., Ansteel ThyssenKrupp Auto Steel Co., Ltd. and ThyssenKrupp Steel Europe Co., Ltd. acquired shares in Ansteel Chongqing Gaoqiang Automobile Steel Co., Ltd. - Ansteel acquired shares in Changsha Baosteel - Ansteel acquired shares in Guangqi Baoshang - Ansteel acquired shares in Ansteel ThyssenKrupp Steel Distribution (Changchun) Co., Ltd. - Anshan Iron & Steel Co., Ltd. acquired shares in ThyssenKrupp Angang (Changchun) Laser Tailored Welding Sheet Co., Ltd. - Itochu Marubeni Tech Steel Co., Ltd. merged with Sumitomo Iron & Steel Co., Ltd. - Toyo Kogyo Co., Ltd. acquired shares in Fuji Technology Mitsu Corporation - Valoric Pipe Company acquired shares in Anhui Tianda OCTG Co., Ltd. - Nucor Steel Co., Ltd. and JFE Steel Co., Ltd. established a joint venture - Ansteel ThyssenKrupp Automotive Steel Co., Ltd. and Guangzhou Automobile Group Trading Co., Ltd. acquired shares in Ansteel Guangzhou Automobile Steel Co., Ltd. - Nippon Steel & Sumitomo Co., Ltd. acquired shares in Nisshin Steel Co., Ltd. - Baosteel Group Co., Ltd. merged with Wuhan Iron & Steel (Group) Co., Ltd. - Baosteel Metal Co., Ltd. and JFE Steel Co., Ltd. established a joint venture, Shanghai Baosteel Jiefuyi Clean Iron Powder Co., Ltd. - ITOCHU Marubeni Iron & Steel Co., Ltd. and Hanwa Engineering Co., Ltd. acquired shares in Shanwen Stainless Steel Co., Ltd. - Sumitomo Corporation acquired shares in Seymour Steel Pipe Co., Ltd. - PRTR Metallurgical Technology (China) Co., Ltd. and Tangshan Iron and Steel Group Co., Ltd. established a joint venture - Datong Special Steel Co., Ltd. acquired shares in Wuxi Top Feng Rijia Metal Products Co., Ltd. - Chongqing Changshou Iron & Steel Co., Ltd. acquired shares in Chongqing Iron & Steel Co., Ltd. - Ningbo Meishan Bonded Port Area Jincheng Shazhou Equity Investment Co., Ltd. acquired shares in Northeast Special Steel Group Co., Ltd.
European Union	M. 6974 – Metinvest/Lanebrook/Southern Gok - M.7138 - Thyssenkrupp/Acciai Speciali Terni/Outokumpu Vdm - M.7155 - Ssab/Rautaruukki - M.7461 – Amds Italia/CLN/JV - M.7517 - Hebei Iron & Steel Group / DPH / Duferco International - M.7617 - Feralpi Siderurgica/Duferco Italia/ Lucchini SpA in A.S. - M.7635 – Lindsay Goldberg/VDM Metals Group - M.7762 – Arcelormittal / Financial Entities / Grupo Condesa - M.7839 - Outokumpu/Hernandez Edelstahl - M.8159 – ArcelorMittal/Cellino/ JV - M.8191 - ArcelorMittal/CLN/JV - M.8301 - GE / ATI / JV

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	• M.8403 - Sumitomo/ Musashi Semitsu Industry / Hay Holding • M.8740 – Schmolz+Bickenbach/Assets of Asco Industries • M.8444 - ArcelorMittal/Ilva
India	• JSW Steel (Salay) (formerly Welspun Maxsteel Ltd.) & JSW Steel Ltd • VSL Steels Ltd & Kirloskar Ferrous Industries Ltd.
Japan	• Nippon Steel & Sumitomo Metal Corporation acquired majority of the share of Nisshin Steel Co.
Russia	• MMK purchased group of JSC lysvenskaya metallurgical company
South Africa	• Scaw and Barnes Southern Palace
United States	• AK Steel acquired Severstal North America (Dearborn, MI) • Steel Dynamics acquired Severstal North America • Nucor acquired Gallatin Steel • Nucor acquired Joy Global (Longview, TX)

Ensuring export credits do not contribute to excess capacity

53. Several GFSEC members (Argentina, Australia, Brazil, Canada, China, India, Indonesia, Japan, Korea, Mexico, Norway, Russia, Saudi Arabia, South Africa, Switzerland, Turkey and the United States) indicated that they do not provide export credits. The European Union has provided information to the Facilitator about the export credits by project for 2014-2017 and specified that the export credits provided by the EU Member States comply with the terms and conditions established by the OECD Arrangement on Officially Supported Export Credits.

Best practices for steel industry adjustment

54. Several members shared their views on best practices for adjustment in the steel industry. More specifically, the inputs were provided by Australia, Brazil, Canada, China, the European Union, India, Japan, Mexico, Russia, Saudi Arabia, South Africa and Turkey. Some of the key points made are provided below.

55. *Australia* noted that as a general principle, adjustment assistance is best aimed at promoting adaptation and easing the transition process for workers and their families, firms and regional communities. Where governments make the decision, based on evidence, that intervention is warranted to support adjustment, it is important that support services help people to adapt, rather than preventing change. Focus should be on helping people to transition to new employment opportunities and promoting new diversified business opportunities. The Australian Government has a proactive and forward looking approach to reducing significant structural challenges for workers, industries and regions. However, while the government has a range of initiatives to support industry competitiveness, firms have responsibility to make decisions to enhance their productivity and future sustainability and be mindful of market and economic conditions. For communities and regions, past experience in Australia suggests that strong local leadership, innovation, and proactive engagement with change are critical components of success. Ultimately, it is the shared responsibility of government, industry and communities to prepare for the challenges and opportunities posed by adjustment by working to: enhance communities appreciation of the drivers of adjustment; recognise the opportunities presented by change, and importance of strong leadership and active engagement in the face of adjustment; help industry better understand and foresee market conditions and opportunities, encourage and enable them to make efficient decisions; keep pace with the rate of change – regardless of whether this means adjusting or ceasing current activities; and review the elements of success in the range of adjustment related

policies and programs that exist across different levels of government, with a view to developing a more effective and consistent approach to adjustment.

56. *Brazil* indicated that it favours practices that are conducive to the smooth functioning of market forces. It was noted that well-functioning markets can achieve the correct balancing between supply and demand, avoiding or reducing the danger of overcapacity and overproduction. Therefore the removal of barriers to exit the market as well as of government support that contributes to excess capacity should be a priority.

57. *Canada* is a firm proponent of open and competitive markets and of a market-driven approach to resource allocation. As such, Canada believes that domestic steel industries should operate within market-based frameworks free of market distorting subsidies and other forms of support. Government policies should facilitate steel industry adjustment and the exit of consistently loss-making firms, "zombie" firms, obsolete capacity facilities and firms not meeting environmental, quality and safety standards, rather than support such forms through market-distorting activities. Governments can facilitate steel industry adjustment through the following best practices: i) to refrain from market-distorting subsidies and government support measures that sustain uneconomic steel plants, incentivize capacity additions which would otherwise not be undertaken, or distort competition; ii) to enhance market function and market-based outcomes through open and competitive markets and a market-driven approach to resource allocation; and iii) to encourage adjustment by ensuring the necessary legislation is in place to facilitate the exit of uneconomic steel plants and that social policies are in place to facilitate the transition of, and social costs for, workers and communities.

58. *China* noted that the most important reason for success of China's iron and steel industry's transform is to further promote the supply-side structural reform, which alleviated excess capacity. During the process, China has explored a development road which not only suits itself but also provides China's wisdom and approach for the global excess capacity challenge. The major measures taken by China have been to: i) set clear goals for reducing excess capacity, that is, to reduce 100-150 mmt of crude steel capacity from 2016 to 2020, ii) adopt market and legal means to reduce capacity by facilitating the exit of capacities that do not meet the requirements of laws and regulations on environmental protection, energy consumption, quality, safety and technology standards, and encouraging the exit of inefficient capacities based on market principles, and iii) take a series of policy measures, including the establishment of an inter-ministerial joint mechanism comprising of 25 ministries and agencies to eliminate outdated capacity and clear up projects violating laws and regulations, earmarking RMB 100 billion as a special fund to resettle the workers affected by the capacity reduction in the steel and coal sectors, enhancing supervision and inspection to prevent reopening of shut-down capacity and to prohibit new capacity investments in violation of laws and regulations.

59. The *European Union* shared its experience of restructuring (the "Davignon Plan"). During the '70s in Western Europe, continued investments in capacity expansions generated overcapacity in the steel sector. This situation had worsened the financial performances of steel companies: a significant decrease of profitability and huge financial losses were recorded in that period. This led to a declaration of a manifest crisis in the steel sector, allowing for significant closures and reduction in capacity. Insufficient ambition and oversight regarding subsidisation lead to the failure of the Plan's first phase. This was corrected under the second phase, and the European Union reduced its capacity by more than 40mmt (corresponding to 20% of steel capacity) within 5 years. This led to an improvement of industry utilization rate by almost 10% and a return of industry to profitability. To achieve these results, a painful

reduction of manpower by about 200.000 (one third of total manpower) in 6 years was necessary—in total the workforce dropped by 45%.

60. *India* indicated that its Government has introduced the concept of Life Cycle Cost Analysis in the General Financial Rule 2017 (GFR). The GFR guides the public finance including government procurement. The usage of steel has a major bearing on the life of a project and in the long run it reduces the overall cost of a project. According to the amendments, life cycle cost analysis is required in tenders and is likely to have a positive impact on steel consumption in the country. In many central and state governments' infrastructure projects, these rules are expected to play an important role.

61. *Japan's* steelmaking capacity was reduced significantly through 1980s and 90s after its peak (168 million tons) in 1977 (68 blast furnaces). Companies' own initiative has been decisive in structural adjustment, which includes closure of facilities and M&A, and they have continuously reorganized their production facilities in light of the market demand conditions and the objectives toward sound future development. While reducing capacity, the structural adjustment in the industry has been accompanied by constant investments in R&D, energy conservation, environmental protection and workforce safety to improve the industry's competitiveness. Measures to ensure job security have also played an important role in the adjustment, which reassign employees to other business units and new businesses, such as new materials, electronics and ITs. The number of workforce at integrated steel mills dropped from 167,261 in 1970 to 34,698 in 2014. Government measures encouraged steel companies' restructuring in the past. Temporary Measures Law on Stabilization of Structurally Depression Industries (1978-1983), and Temporary Measures Law for Facilitating Industrial Structural Adjustment (1987-1996) were enforced. According to the laws and regulations, the government designated specific industrial sectors, including steel sector, and provided incentives (e.g., lower rate public finance, deduction of corporate tax) for companies which carried out capacity closure/reduction. Steel companies' swift and prompt action against the change in circumstances surrounding the industry has enabled the industry's sustainable growth. The industry has currently 26 blast furnaces in total and has kept its annual crude steel production on a level with 110 million tons for the decade.

62. *Mexico* expressed support to multilateral actions in order to jointly develop actions against market-distorting subsidies and other types of support by governments and related entities. Mexico also believes that it is necessary to level the playing field in the global steel markets.

63. *Russia* noted the importance of refraining from market-distortive practices and encouraging market-based conditions in the steel industry.

64. *Saudi Arabia* noted the necessity of removing distortionary government policies and indicated that industry restructuring should be conducted through improving competitiveness in order to reduce cost of production and stimulate demand. Saudi Arabia also noted that it is important to learn from the EU experience of steel industry restructuring in the 1970s and 1980s.

65. *South Africa* believes that steel industry adjustment has to be implemented in a manner that does not inhibit the growth, development and job creation objectives of small, emerging market economies.

66. *Turkey* noted the importance of removal of all kind of direct and indirect government supports leading to increased steel capacity. However, government support for plant closures, for energy efficiency and emissions reductions should be encouraged.

Members' experiences on new sources of steel demand

67. Ten members (Australia, Canada, China, India, Indonesia, Japan, Russia, Saudi Arabia, South Africa and Turkey) shared their experiences on new sources of steel demand. Key points made are provided below. For instance, *Australia* indicated that future large scale infrastructure projects in Australia will generate a growing demand for steel. *China* explained that over the years, it has been committed to expanding its steel demand. For instance, the application of high-strength re-bar and steel structure is expanded by seizing the transformation and upgrading trends in construction industry. The construction industry is the largest consumer of steel products in China, accounting for more than 50% of the total. The promotion of urbanization and the increase of high-rise buildings are expected to speed up the popularization and application of steel structure in buildings in China. At present, the annual output of China's structure steel accounts for only 5% of the national steel output, thus the proportion of China's steel structure still has some room for growth. China has been also constantly improving the quality and property of steel products and developing new steel materials to guide and create new demands. With the continuous promotion of "Made in China 2025" and supply-side structural reform, equipment manufacturing steel especially for high-end equipment manufacturing steel, will show an increasing trend, and higher performance requirements will be raised for steel materials. Chinese steel producers have made breakthroughs in the research and development of high-quality and high-performance steel products, especially ultra-high fatigue-resistant and high-toughness steel, by means of EVI and enhanced tracking of customer's need.

68. In *Canada*, steel use is driven by mining, quarrying and oil and gas extraction (natural resources), construction and manufacturing. Key steel consuming manufacturing sectors in Canada include, but are not limited to: machinery; electrical equipment, appliance and component; furniture; and automotive and parts. For Canadian steel producers, steel production is influenced by both domestic and international demand, given that approximately 50 percent of Canadian steel production is exported, with approximately 94 percent of Canada's exports destined for the NAFTA market. In this context, Canadian steel producers participate in an integrated North American market with demand being driven by North American supply chains in energy, construction (commercial) and manufacturing (automotive and parts). In the near term future, rebounding resource prices could lead to new energy investments within North America, resulting in increased demand for specific steel products (i.e. OCTG).

69. *Japan* indicated that given that its steel demand had been shrunk and stable since late 1970's, the Japanese steel industry did not pursue quantitative demand expansion by finding new demand sources. Instead it enhanced quality and added value of their products by technological advancement, in conjunction with the optimization by their tremendous efforts for structural adjustment, and thereby strengthened their overall competitiveness.

70. *India* believes that infrastructure projects in emerging economies are likely to generate new demand for steel.

71. *Indonesia's* steel demand is rising, particularly augmented by government-led infrastructure development. A current policy of the government is the development of essential

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infrastructures including highways, railways, ports, airports, and other infrastructure projects throughout the provinces in Indonesia aimed to enhance connectivity including 37 priority projects and 248 national strategic projects.

72. *Russia* noted that development of electric cars and large steel consumption infrastructure projects will generate steel demand. *Saudi Arabia* believes that the increase of the investments in the renewable energy worldwide will increase the steel demand. *South Africa* indicated that advanced value added steel products as the new sources of steel demand. *Turkey* noted that there is a trend of demand shift to high quality and special steels to meet the needs of industries with high technologies.

Outcomes of the review process

Subsidies and other types of support by government and government-related entities

73. The review process that was launched at the first Global Forum meeting in 2018 allowed members to provide necessary clarifications and to respond to questions raised by other members regarding the subsidies and other types of support by government and government-related entities.³⁵ Not all questions with respect to these measures were addressed and some answers that were provided were partial. Details are provided below on the responses given by Members whose measures were questioned. The explanation and information provided by Members posing the query is not covered here. This can be found in the individual submissions by Members.

³⁵ Several questions regarding subsidies and other support measures provided to steel producers at the provincial and local level have not yet been answered by China, as information on sub-central policies and measures is still being gathered by the relevant authorities.

Preferential financing inconsistent with market-based conditions

74. Several members posed questions to China regarding preferential financing provided to its steel companies. The questions posed were based on the specific examples of the relevant support measures in place.³⁶ China was invited to provide its views on the alleged measures, to explain which tangible and swift actions are being taken to eliminate these measures, as well as actions being taken by the government to ensure that bank lending does not contribute to the problem of overcapacity in the steel sector.

75. China provided information on the regulatory framework and practices in place. More specifically, China noted that according to its Commercial Bank Law, governments or government-related agencies do not participate in banks' decisions on loans, and all banks should reasonably price their loans based on the lender's overall operating conditions, credit rating, financing purposes, and other relevant factors. It was stated that Chinese banks, especially commercial banks, should not be considered as a public body, and that their decisions are made independently without any intervention from the government. China further stated that when commercial banks issue commercial loans, they are not subject to any intervention by the Chinese government and that commercial banks' lending rates are not subject to interference from the government.

76. Some members also questioned preferential financing practices in the European Union and in some of its member states (namely, Germany and Italy). For instance, examples of preferential loans and credit support by state-owned banks were cited in the submissions provided to the Forum. Responding to the questions posed, the European Union noted that the loans that were quoted were provided on commercial terms and do not constitute support. The European Union also noted that the indicated measures fall outside of the purview of paragraph 57 of Berlin Ministerial report since there were no capacity increases in the European Union over the past years, and as such the measures cannot be contributing to excess capacity.

77. Preferential loans provided at the state level in the United States were also questioned during the review process. In response, the United States noted that the indicated programs were generally available to companies in all industries and no funds were specifically allocated to the steel industry under the programs.

Equity infusions and conversions (including debt-for-equity swaps) inconsistent with market-based conditions

78. Several Global Forum members noted equity infusions that have been used in China to support non-financially viable companies through mandated debt-to-equity swaps.³⁷ China was invited to respond to the specific examples of such practices cited by some members, and to explain what actions it is taking to ensure that equity infusions and other financing mechanisms do not contribute to excess capacity by sustaining non-viable steel production.

79. China referred to the "Opinions on Actively and Prudently Lowering the Enterprise Leverage Ratio" and the "Guiding Opinions on the Market-oriented Bank Debt-Equity Swaps", stating it is prohibited to implement debt-to-equity swaps for four types of enterprises including

³⁶ The specific cases of provision of preferential loans to Baogang, Lingyuan Iron and Steel, and Shougang Group were indicated.

³⁷ The details were provided on debt-for-equity swap agreements that were signed by Wuhan Iron and Steel Group, Shandong Iron and Steel Group, Angang Group and Hebei Iron and Steel.

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“non-viable enterprises” that have no hope of turn-around, enterprises that maliciously evaded debts, enterprises that have complicated and unclear creditor-debtor relationships, and enterprises that have the potential to aggravate overcapacity.

Grants, awards and cost refunds

80. Support measures in the form of grants were also raised during the review process. Some members provided evidence of these support measures based on information from annual reports of selected large Chinese steel companies.³⁸ The practice whereby local governments provide subsidies in the form of large lump sums to local enterprises that face pressure to fall under the category “Special Treatment” enterprises was also discussed in some members’ submissions. Questions were asked about the provision of grants as well as actions taken by China to ensure that these will not be provided in future. These questions were not addressed by China.

81. The European Union was asked to provide explanations about grants provided to Italian steel enterprises as well as R&D funding provided by the German government to its steel industry. In response, the European Union noted that the indicated measures do not distort the steel market by contributing to excess capacity, and as such do not fall within the scope of subsidies or government support measures under paragraph 57 of the Berlin Ministerial Report.

82. The United States was invited to respond to questions related to the provision of grants to some steel companies under the Steel Development Initiative of Ohio. The United States noted that the initiative under question was not a program itself; it was put in place with the only objective being to inform Ohio’s steel industry about separate incentive programs for which it may have been eligible. These programs, however, were not steel-specific and were available to companies in all industries.

Tax exemptions, reductions, and credits

83. Questions about tax incentives in Brazil, China, the European Union, India and the United States were raised and discussed during the review process. Responding to a question about preferential taxes used to promote industrial exports, Brazil noted that these had been phased out.

84. A number of benefits available under preferential tax programs in China were pointed out by members during the review process.³⁹ China was asked to share information on the indicated support measures, and explain what actions it is taking to ensure that such forms of support will not be provided to steel producers in the future. China stated that its taxation system follows the “tax neutrality” principle and that China does not currently issue any preferential taxation policy specific to steel enterprises and has no plan to introduce such policies in the future. China did not comment on the examples of tax benefits that were listed by members in their submissions.

38 Details were provided on grants received by Hebei Iron & Steel Company, Shougang Steel, Chongqing Steel, Baoshan Iron and Steel, Wuhan Iron and Steel, and Ansteel Group Corporation.

39 These include import tariffs and VAT exemptions on imported equipment in encouraged industries; income tax deductions for research and development expenses under the Enterprise Income Tax Law (EITL); income tax reduction for high or new technology enterprises under the EITL.

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85. The European Union was asked to comment on tax incentives available to Italian steel enterprises. Responding to this, the European Union reiterated that the measures do not distort the steel market by contributing to excess capacity, and as such do not fall within the scope of subsidies or government support measures under paragraph 57 of the Berlin Ministerial Report.

86. Some members raised questions to Indonesia about a number of measures including tax allowances and tax holidays that were introduced under economic stimulus packages in order to attract investments to Indonesia. Indonesia noted that the indicated tax incentives are not specific to the steel sector and are available and apply to all companies irrespective of their ownership. The United States was asked to comment on a tax exemption measure that was provided by the State of Louisiana. The United States explained that the project for which the incentive was provided did not involve production of steel. The incentives in question were related to the construction of a direct reduced iron facility and were of a locational nature – that is, they were offered in order to attract an investment that the steel company had already determined to make.

Provision of goods and services by government and input support

87. Several members provided information on inputs provided at preferential terms to steel producers in some GFSEC economies. China was asked to comment on its preferential provision of steelmaking raw materials, electricity as well as land-use rights at discounted prices or for free to steel companies. The measures are deemed to affect inputs and products along the product chain, and take the form of export quotas, export duties, export licencing requirements on steelmaking raw materials as well as export taxes and non-refundable VAT on export of ingots and other primary forms of stainless steel. In its response, China stated that the enterprises supplying the raw materials to steel companies are not part of the government nor are they public bodies, and therefore in their view the alleged practices do not constitute a subsidy. China also stated that electricity is not provided at preferential prices specifically to the steel industry and that it does not restrict the use of land to specific industries, nor does it affect the land-use price.

88. The European Union and concerned member states were asked to comment on the provision of energy for less than adequate remuneration to Italian steel companies as well as energy subsidies provided to steel companies in Germany. It was noted that the support provided to German companies allow for partial compensation of the additional costs arising from the ambitious climate protection measures that were introduced by the German government under EU law, and thus do not constitute a distortion to the market.

89. Indonesia, responding to a question about tariff exemptions for machine imports and raw materials support provided under economic stimulus packages, noted that the import duty exemption on machinery imports is a generic measure and not limited to the steel sector. With respect to the export of raw materials, Indonesia noted that it regulates the exports of nickel ores and of metal waste and scrap to encourage national industries to produce higher value-added products.

Distortive discretionary policy measures or non-application of market based policy measures

90. Specific examples of distortive discretionary policy measures or non-application of market policy measures were raised by members during the review process. China was invited to comment on specific examples of support to bankrupt companies that were indicated by

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members as well as support provided for outward investment. China stated that the capital infusion from the finance department of the central government to relevant central enterprises through the state capital budget is investment behaviour by the state as a contributor, and follows market-based principles.

91. With respect to support for outward investment, China stated that according to its regulations, commercial financial institutions should follow market-based principles in providing proper financial products and services to support the international operations of Chinese enterprises and the development of the real economy. China stated that the government will not provide additional financial support for commercial banks to support enterprises in “going global”.

ANNEX 3. DETAILS OF THE REVIEW PROCESS UNDER PRINCIPLE VI

The key outcomes of the review process with respect to the subsidies and other types of support by government and government-related entities are presented hereinafter. The balance of views included in this Annex with regards to each measure follows the criteria and has the implications set out in paragraph 42 of the report. Details as to the measures and the examples of beneficiaries can be found in the relevant submissions by Members.

The categories in which the Annex is divided follow the language used in the GFSEC questionnaire for information sharing, based on the text of the Berlin Ministerial Report and is not intended to imply an assessment of the measures discussed.

Preferential financing inconsistent with market-based conditions

European Union

Type of Measure	Beneficiary companies listed	Collective review process
Preferential loans (Italy)	Italian steel enterprises are benefiting from Technological Innovation Loans Under Law 46/82	Not under paragraph 57 of the Berlin Ministerial Report (*)
Loans by state-owned banks (Germany)	German steel, iron ore mining projects and coal mining projects	Not under paragraph 57 of the Berlin Ministerial Report (*)

P. R. Of China

Type of Measure	Beneficiary companies listed	Collective review process
Preferential loans	Baogang; Benxi Group; Hesteel Group; Inner Mongolia Baotou Steel Union Co., Ltd.; Jiangsu Shagang Group; Lingyuan Iron and Steel Group; Shougang Group; Wuhan Iron and Steel Group; Chongqing Iron and Steel;	Under ongoing discussion
Debt relief	Xinxing Ductile Iron Pipes Co.	Under ongoing discussion

United States

Type of Measure	Beneficiary companies listed	Collective review process
Preferential loans	Steel enterprises in Ohio through the Steel Development Initiative of Ohio Nucor through Louisiana Economic Development	Not under paragraph 57 of the Berlin Ministerial Report (*)
Loan guarantees	Steel enterprises in Ohio through the Steel	Not under paragraph 57 of the Berlin Ministerial Report (*)

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Development Initiative of Ohio

Equity infusions and conversions

Brazil

Type of Measure	Beneficiary companies listed	Collective review process
Equity infusions	Not specified	Not under paragraph 57 of the Berlin Ministerial Report

P. R. Of China

Type of Measure	Beneficiary companies listed	Collective review process
Equity infusions	Ansteel Group Co., Ltd.; Hesteel Group Co., Ltd.; Wuhan Iron and Steel Group	Under ongoing discussion
Debt-for-equity swaps	Angang Group, Ansteel Group Co., Ltd.; Anyang Iron and Steel Group Co., Ltd.; Benxi Iron and Steel Group Co., Ltd.; Bohai Iron and Steel Group Co., Ltd.; Dongbei Special Steel Co., Ltd.; Gansu Jiusteel Group Co., Ltd.; Hebei Iron and Steel; Hesteel Group Co., Ltd.; Hunan Valin Iron and Steel Group Co., Ltd.; Magang Group Holding Co., Ltd.; Nanjing Iron and Steel Group Co., Ltd.; Shandong Iron and Steel Group Co., Ltd.; Sinosteel Co., Ltd. ;Taiyuan Iron and Steel Group Co., Ltd.; Wuhan Iron and Steel Group; Xining Special Steel Co., Ltd.	Under ongoing discussion

Grants, awards and cost refunds

European Union

Type of Measure	Beneficiary companies listed	Collective review process
Grants from "Industrial Development Grants Under Law 488/92, Technological Innovation Grants Under Law 46/82" (<i>Italy</i>)	Not specified	Not under paragraph 57 of the Berlin Ministerial Report (*)
Direct and indirect R&D subsidies (<i>Germany</i>)	Not specified	Not under paragraph 57 of the Berlin Ministerial Report (*)

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P. R. Of China

Type of Measure	Beneficiary companies listed	Collective review process
Grants/ Awards	Jiangsu Shagang Group; Benxi Group; Hesteel Group; Shougang Group; Chongqing Iron and Steel; Lingyuan Iron and Steel; Inner Mongolia Baotou Steel Union Co.; Xinxing Ductile Iron Pipes Co. Baoshan Iron & Steel; Wuhan Iron & Steel; 398 unspecified cases;	Under ongoing discussion
Relocation compensation	Chongqing Iron & Steel Company Limited; Xinxing Ductile Iron Pipes Co., Angang Group; Baosteel Group; Fangda Special Steel	Under ongoing discussion
Deferred income	Xinxing Ductile Iron Pipes Co. Wuhan Iron & Steel; Ansteel Group Corporation; 80 unspecified cases	Under ongoing discussion

Japan

Type of Measure	Beneficiary companies listed	Collective review process
Grants for research and development	Not specified	Not under paragraph 57 of the Berlin Ministerial report (*)

United States

Type of Measure	Beneficiary companies listed	Collective review process
Grants	Nucor	Not under paragraph 57 of the Berlin Ministerial Report (*)

Tax benefits

Brazil

Type of Measure	Beneficiary companies listed	Collective review process
Preferential tax "Crédito Prêmio" of the Industrialized Products Tax (IPI)	Not specified	Not under paragraph 57 of the Berlin Ministerial Report

Indonesia

Type of Measure	Beneficiary companies listed	Collective review process
Tax allowances	Not specified	Under ongoing discussion

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Tax holidays	Not specified	Under ongoing discussion
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European Union

Type of Measure	Beneficiary companies listed	Collective review process
Tax incentives for Italian steel enterprises benefiting from Equalization Fund (<i>Italy</i>)	Not specified	Not under paragraph 57 of the Berlin Ministerial Report (*)

P. R. Of China

Type of Measure	Beneficiary companies listed	Collective review process
Tax exemptions or reductions	Shougang Group Baosteel Group Wuhan Iron and Steel Group Shandong Steel Group Xinxing Ductile Iron Pipes Shagang Group Fangda Special Steel Hesteel Group	Under ongoing discussion
Tax rebates	Shougang Group; Inner Mongolia Baotou Steel Union 25 unspecified cases	Under ongoing discussion
Tax refund	Xinxing Ductile Iron Pipes	Under ongoing discussion
Writing off taxable income	Not specified	Under ongoing discussion

United States

Type of Measure	Beneficiary companies listed	Collective review process
Tax exemptions	Tax exemptions provided by the Indiana Government	Not under paragraph 57 of the Berlin Ministerial Report (*)

Provision of goods and services by a government (for less than adequate remuneration)

European Union

Type of Measure	Beneficiary companies listed	Collective review process
Provision of energy for less than adequate remuneration (LTAR) (<i>Italy</i>)	Not specified	Not under paragraph 57 of the Berlin Ministerial Report (*)
Energy subsidies including renewable energy surcharge, electricity price compensation, carbon emission permits	Not specified	Not under paragraph 57 of the Berlin Ministerial Report (*)

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(Germany)		
Raw material subsidies. Subsidies for coal mining and coal sales (Germany)	Not specified	Not under paragraph 57 of the Berlin Ministerial Report (*)

Indonesia

Type of Measure	Beneficiary companies listed	Collective review process
Export restrictions on nickel ores and metal waste and scrap	Not specified	Under ongoing discussion
Raw materials support	Not specified	Under ongoing discussion

P. R. Of China

Type of Measure	Beneficiary companies listed	Collective review process
Export quotas on coke, coking coal, metal waste etc.	Not specified	Under ongoing discussion
Export duties on chromium, ferronickel, crude steel, iron ore etc	Not specified	Under ongoing discussion
Export licensing requirements on coke, coking coal, manganese, molybdenum	Not specified	Under ongoing discussion
Export taxes and non-refundable VAT on export of ingots and other primary forms of stainless steel	Not specified	Under ongoing discussion
Utility bill compensation	<i>Inter alia</i> , Handong Steel Group; Shougang Group; Lingyuan Iron and Steel Group; Xinxing Ductile Iron Pipes; Baogang Group; Fangda Special Steel	Under ongoing discussion
Provision of electricity for less than adequate remuneration (LTAR)	<i>Inter alia</i> , Anyang Steel	Under ongoing discussion
Provision of land and land-use rights for less than adequate remuneration (LTAR)	<i>Inter alia</i> , Jiangsu Shagang Group ; Benxi Group; Hesteel Group; Shougang Group; Xinxing Ductile Iron Pipes; Baogang Group	Under ongoing discussion
Production inputs below market price including hot-rolled steel, cold-rolled steel, steel rounds, billets, ferrous scrap, pig iron, iron ore, coking coal, steam coal, nickel, and ferrochrome/chromium	Not specified	Under ongoing discussion

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Distortive discretionary policy measures or non-application of market based policy measures

European Union

Type of Measure	Beneficiary companies listed	Collective review process
Support for steel suppliers (United Kingdom)	Nor specified	Not under paragraph 57 of the Berlin Ministerial Report (*)

India

Type of Measure	Beneficiary companies listed	Collective review process
Support for bankrupt companies	In 2017, a number of distressed steel producers were referred by their lenders to an insolvency committee under India's Insolvency & Bankruptcy Code (IBC) and continued to raise steel output while undergoing IBC proceedings	Under ongoing discussion

P. R. Of China

Type of Measure	Beneficiary companies listed	Collective review process
Support for bankrupt companies	<i>Inter alia</i> , Chongqing Iron and Steel; Dongbei Special steel; Beigang	Under ongoing discussion
Outward investment support	Not specified	Under ongoing discussion

(*) The member has reduced capacity in the past two decades and thus not contributed to excess capacity.

ANNEX 4. GLOBAL FORUM MEMBERS' POLICIES AND VIEWS ON ADDRESSING CAPACITY

The following are individual views and perceptions by Global Forum members in their own words.

EU and its Members States

EU industry has neither caused nor contributed to the severe overcapacity that plagues the world market in the last decade. Yet it has suffered greatly from it: the EU has seen the largest reduction in capacity in the world between 2014 and 2016(-5%), which continued in 2017. Since 2006, the EU capacity has dropped by 9%.

The EU continues to stem unfair trade practices, stabilize the market, address the effects on our workers, and accompany the EU industry's drive to remain at the apex of competitiveness, innovation and resource-efficiency with the full array of policies of the 2016 Commission Communication on Steel. This drive takes place within its market-based, open, and non-discriminatory framework the EU has described in its detailed submissions to the Forum.

But global overcapacity has reached a tipping point—it is so significant that it poses an existential threat that the EU will not accept. This requires urgent solutions addressing its structural causes: market-distorting subsidies and other support measures. The EU's ample experience provides useful answers to today's problems.

The EU ensures – through its competition policy - that steel companies can compete on fair terms on the market. Competition rules ensure that all companies compete on a level playing field, irrespective of their ownership. All enterprises are subject to both merger and State aid control as well as effective enforcement of those rules, irrespective of their ownership. Furthermore, the EU State aid rules prohibit the granting of any aid to invest into capacity by steel producers and of operating aid to steel companies in financial difficulties.

Also, the EU engaged in the most ambitious restricting program for steel in history—which helps draw useful conclusions. Whatever the policy mix, market-based restructuring is the only sustainable solution—with strict elimination of market-distorting aid. Reductions in capacity by relevant countries must be sufficiently large—postponing necessary cuts is a recipe for daunting problems in the medium term. The social impacts must be squarely catered for. And increases in capacity must also be market-based, strictly following long-term demand.

On this basis, the EU is convinced that we must avoid the mistakes of the past and take advantage of cyclical upturn to finally eliminate overcapacity, avoiding another major crisis in the next downturn.

India

India, despite not having excess capacity, believes that the global excess capacity is harmful as it damages the market economies. Indian steel industry is market-driven, and policies are compliant with WTO Agreements. India supports removal of all trade restrictive and market

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distorting support/incentivizing measures (that result in excess steel capacity) in a time-bound manner, by the member countries, through continued multilateral dialogues.

As India's per capita consumption of steel is very much lower than the global consumption, it is anticipated to rise in future. India firmly believes that the production of steel should be driven by the consumption of steel. India also ensures level playing field for all steel producers, irrespective of scale, ownership, or origin, through effective competition policy.

The Indian industry has initiated programmes for modernization which will make production more energy efficient. Government of India is aware of its global environmental responsibilities and therefore, promotes the research and development for environment friendly technologies. India is striving to move towards eco-friendly steel-making capacity in accordance with its commitments under the Paris Agreements (COP21).

Indonesia

Indonesia reiterates its commitment to this forum. Indonesia has committed to share all necessary information through the web platform and we clearly answered all the questions raised by other member with an objective to enhance transparency.

We have had the opportunity to explain our position with the objective to increase capacity in view of economic growth and domestic demand conditions. Indonesia is not in the position of crude steel over capacity. While Indonesia's steel demand is rising rapidly, Indonesia is the third largest importer of steel, reflecting the fact that our steel consumption has increased much faster than its production.

The balance of collective review exercises has identified that the measures undertaken by Indonesia does not fall under the purview the Berlin Ministerial report. We have reported that there are no such subsidy measures or specific policies in the steel sector. We will make sure to keep it on going that way.

While wholly understand the objective of the forum, Indonesia attaches steel capacity as an instrument for national development and finds it appropriate from current domestic demand-supply perspective. The addition of steel capacity is expected to come on the basis of market based assessment of investors. The government has no role to play in this connection and no support measures that lead to a distorted steel market. Indonesian government objectives to increase capacity would not be accompanied by market-distorting subsidies that contribute to excess capacity.

Indonesia would like also to associate itself with India and South Africa in supporting paper presented by India titled "Excess Capacity & Developing Economies". Capacity addition in the emerging economies is in line with various demand projections in the course of development.

GFSEC managed to come up with important outcomes in Berlin—consensus to work on finding collective solutions to tackle this global challenge. This requires policy coherence from the early stage of policymaking. Thus, there is an opportunity to build evidence, genuine mutual understanding and consensus to improve the international regime for steel industry development rather than relying on imperative actions.

Nonetheless, it appears that the implementation of such ambitious commitments as mandated by the Berlin Report could not, arguably, be instant. It entails certain period of time for

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adjustments, taking also into account that we have only less than a year to come at this stage for fulfilling Berlin commitments. Appreciation goes to all GFSEC members for all necessary efforts taken to address the root causes of excess capacity from every meeting going forward. We thank Chair and Facilitator for the unfailing works and cooperation.

Russia

Since comprehensive restructuring in the 90's, today the Russian steel industry is privately owned. Based on the global steel market conditions Russian companies adjust themselves accordingly to the challenges the industry faces through restructuring their facilities, merges and acquisitions and other market-based decisions.

Global overcapacity affects global steel trade resulting in trade protectionism and trade distortions. Ultimately it leads to a slowdown in economic growth and contributes to erosion in the international rules-based system.

Overcapacity is the result of overinvestment that comes from excessive government interventions. Both government market-distortive subsidies aimed at creating excess capacities and direct state regulation including active trade protectionism lead to a sprawl of global crisis and create problems on the way to restore a market-driven approach in this sector.

The Russian steel market is one of the most open markets. Government of the Russian Federation contributes to the increase of global steel demand promoting the development of infrastructure projects. In 2017 the increase in Russia's steel consumption was 5,4 % along with the growth in GDP by 1,5 %. In 2018 steel demand is estimated to increase by 1%.

The multilateral dialog initiated by G20 countries and interested OECD steel-producing countries and aimed at crafting the guiding principles for governments to develop specific policy recommendations is necessary to ensure sustainable growth of the sector and provide a unique solution for other industries suffering from similar problems.

Brazil

The Brazilian steel industry underwent major restructuring in the 90's. It is now privately owned and is fully market driven. Brazilian companies respond to market conditions, therefore the production and the capacity has been continuously adjusting to market signals.

Both the government and the Brazilian steel industry support the work of the GFSEC so that supply and demand can once again be realigned. Overcapacity of steel can only be dealt with through multilateral efforts and transparency, and the GFSEC is the proper body capable to deliver concrete solutions to the address the issue. Brazil supports the continuity of the Forum to find a solution to overcapacity, one that will allow for the compliance with the commitments and principles agreed in the Berlin Ministerial Report.

ANNEX 5: G20 COMMUNIQUE

G20 Trade Ministers, Shanghai, 9-10 July, 2016, para 10

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from governments or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. The G20 steelmaking economies will participate in the global community's actions to address global excess capacity, including by participating in the OECD Steel Committee meeting scheduled for September 8-9, 2016 and discussing the feasibility of forming a Global Forum as a cooperative platform for dialogue and information sharing on global capacity developments and on policies and support measures taken by governments.

G20 Finance Ministers and Central Bank Governors, Chengdu, 23-24 July 2016, para 5

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from governments or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. The G20 steelmaking economies will participate in the global community's actions to address global excess capacity, including by participating in the OECD Steel Committee meeting scheduled for September 8-9, 2016 and discussing the feasibility of forming a Global Forum as a cooperative platform for dialogue and information sharing on global capacity developments and on policies and support measures taken by governments.

G20 Leaders, Hangzhou, 4-5 September 2016, para 31

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from government or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment.

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To this end, we call for increased information sharing and cooperation through the formation of a Global Forum on steel excess capacity, to be facilitated by the OECD with the active participation of G20 members and interested OECD members. We look forward to a progress report on the efforts of the Global Forum to the relevant G20 ministers in 2017.

G20 Leaders, Hamburg, 7-8 July 2017, para 6

Excess Capacities: *Recognising the sustained negative impacts on domestic production, trade and workers due to excess capacity in industrial sectors, we commit to further strengthening our cooperation to find collective solutions to tackle this global challenge. We urgently call for the removal of market-distorting subsidies and other types of support by governments and related entities. Each of us commits to take the necessary actions to deliver the collective solutions that foster a truly level playing field. Therefore, we call on the members of the Global Forum on Steel Excess Capacity, facilitated by the OECD, as mandated by the Hangzhou Summit, to fulfil their commitments on enhancing information sharing and cooperation by August 2017, and to rapidly develop concrete policy solutions that reduce steel excess capacity. We look forward to a substantive report with concrete policy solutions by November 2017, as a basis for tangible and swift policy action, and follow-up progress reporting in 2018.*

ANNEX 6: TERMS OF REFERENCE OF THE GLOBAL FORUM ON STEEL EXCESS CAPACITY

The terms of reference emanate from the call for a Global Forum on Steel Excess Capacity by G20 Leaders at the 4-5 September 2016 meeting in Hangzhou, China, who stated in paragraph 31 of their Communiqué:

We recognize that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and workers. We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from government or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment. To this end, we call for increased information sharing and cooperation through the formation of a Global Forum on steel excess capacity, to be facilitated by the OECD with the active participation of G20 members and interested OECD members. We look forward to a progress report on the efforts of the Global Forum to the relevant G20 ministers in 2017.

Mission

As described in, and based on paragraph 31 of the Hangzhou Summit G20 Leaders' Communiqué, the Global Forum (GF) would:

- Ensure increased and effective communication, information sharing and co-operation between its members in the areas mentioned in paragraph 31 of the G20 Communiqué.
- Take effective steps to address the challenges of excess capacity so as to enhance market function and encourage adjustment.
- Report on the progress of the GF's work to the relevant G20 ministers in 2017 and yearly thereafter.

Membership

The members of the GF are all G20 members and interested OECD members (see enclosed List). All GF Members participate on an equal footing.

Structure

Decisions by Global Forum members, who participate on an equal footing, are taken on the basis of consensus.

For its effective functioning, the Global Forum requires a Steering Group. This is composed of no more than nine members, the eight largest steel-producing economies⁴⁰, plus the incumbent G20 Presidency. The incumbent G20 Presidency and two members of the

40. China, The European Union, Japan, India, The United States of America, Russia, Korea and Brazil

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Steering Group will serve as the Chairs of the Global Forum, as selected annually by the Global Forum members, taking into account a member's willingness to serve, production and capacity, and the balance between regions and developing and developed members.

To achieve its mandate, the Global Forum will convene at least twice per year, at the senior official and high level, as necessary.

The GF may invite relevant experts, economic operators, academia, and international organisations to provide input, as warranted and on a consensus basis.

Facilitator

As described by paragraph 31 of the Hangzhou Summit Leaders' Communique, the OECD would facilitate the work of the GF, its Steering Group and Chairmanship. Its functions include technical, analytical, and meeting facilitation, as requested by the Global Forum.

Expenditures

The expenditures of the Global Forum shall be financed by its members. Funding shall take place through:

- Voluntary contributions; and/or
- A scale of contribution to be agreed by the members of the Global

Forum.

Duration

The duration of the Global Forum will be 3 years. The duration can be extended based on the consensus of the members.

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List of members (OECD members to date)

1. Argentina
2. Australia
3. Austria
4. Belgium
5. Brazil
6. Canada
7. China
8. European Union
9. Finland
10. France
11. Germany
12. Greece
13. Hungary
14. India
15. Indonesia
16. Italy
17. Japan
18. Luxembourg
19. Mexico
20. Netherlands
21. Norway
22. Poland
23. Russia
24. Saudi Arabia
25. Slovak Republic
26. South Africa
27. South Korea
28. Spain
29. Sweden
30. Switzerland
31. Turkey
32. United Kingdom
33. United States