*This report was presented as a draft Ministerial Report at the GFSEC Ministerial meeting held in Tokyo on 26th October, 2019. As it did not attract a full consensus, it is presented as a Chair’s Report, and should be read in conjunction with the Chair’s statement at the conclusion of the Ministerial meeting.

GLOBAL FORUM ON STEEL EXCESS CAPACITY

CHAIR’S REPORT

26 OCTOBER 2019
Section I. Introduction

1. 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 became particularly acute in 2015. Excess capacity 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.

2. 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 G20 Hangzhou and Hamburg Summits. This report focuses on the steel sector.

3. Recognising the serious problem of excess capacity in the global steel industry as a global issue that requires collective responses, 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. The Global Forum on Steel Excess Capacity (GFSEC) was formally established on 16 December 2016 in Berlin. It brings together 33 member economies (all G20 members and interested OECD members), representing around 90% of global steel production and capacity.

4. In line with G20 Leaders’ call for increased information sharing, the GFSEC established an information-sharing mechanism in early 2017, to exchange information on crude steel capacity developments, as well as government policies and measures affecting capacity developments, including market-distorting subsidies and other government support measures.

5. Following the commitments by G20 Leaders at the July 2017 Hamburg summit, the GFSEC then moved to develop 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 6). These were put forward as 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 has been
a key priority for the Forum's work in 2018 and 2019, reflecting the importance of not simply mitigating excess capacity in the short term, but structurally eliminating excess capacity.

6. At their Ministerial meeting on 20 September 2018 in Paris, GFSEC member economies approved a substantive report (hereafter the Paris Ministerial Report) that reflected the results of the information sharing and review processes which took place between February and May 2018, discussing market-distorting subsidies and support measures that contribute to excess capacity, as well as 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.

7. At the Paris Ministerial meeting, Ministers and their representatives agreed to accelerate the reduction of excess capacity and reaffirmed their commitment to implement the policy recommendations of the Berlin Ministerial Report in a full and timely manner. To this end, they agreed to suggest further necessary reductions by June 2019, and to regularly review planned or effective capacity increases in light of the principles agreed in the Berlin Ministerial Report, drawing the relevant conclusions, discouraging non-conforming capacity increases and discussing remedial actions.¹

8. As noted in paragraph 52 of the Paris Ministerial Report, members of the Global Forum also committed to work in the remainder of 2018 and 2019 to:
   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.

9. Based on the commitments laid out in the Berlin and Paris Ministerial Reports, the Japanese Chair held two new rounds of information sharing, assessment and review between December 2018 and September 2019, focusing in particular on the specific areas of work

¹ See paragraphs 48 and 49 of the Paris Ministerial Report available at https://g20.argentina.gob.ar/en/documents² See, inter alia, presentations provided at the GFSEC meeting on 28 March, 2019, as well as information referred to in paragraph 66 of Annex 1 of this report and in paragraphs 54 to 66 of Annex 2 of the Paris Ministerial Report.
noted above. GFSEC members, steel sector representatives and international associations also shared their experiences of steel industry restructuring and adjustment as well as lessons learned, their views on the current situation and future outlook, and derived key insights to avoid the expansion and re-emergence of excess capacity in the future.

10. As a result of this effort, the GFSEC as a whole has obtained a more comprehensive understanding of the global steel market with regional variations, as outlined in the following sections. 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-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. GFSEC members are committed to build on these fruits of discussion by maintaining and strengthening their actions.

11. The Forum is a unique tool to address salient challenges in the world steel industry through international discussion and cooperation. It is neither an international negotiation body setting new rules nor a dispute settlement mechanism which makes rulings that result in binding obligations. The Forum rather aims at increasing transparency among members through the sharing of information, frank and informative discussion and exchange of views, which is expected to inform the choice of members to provide commitments on a voluntary basis. No other forum or fora can replace it to deal with the problem at hand. Full and timely participation in the work of the Global Forum, full commitment to follow through on its goals in order to structurally eliminate and prevent excess capacity, full application of its information sharing and review process, and full implementation of voluntary commitments reflecting the outcomes of such processes, demonstrate each member’s willingness to genuinely partake in an international approach based on transparency and cooperation.

12. At their summit in Buenos Aires in late November 2018, G20 Leaders called on Global Forum members to prepare a substantive report by June 2019. In response to the G20 Leaders’ call, the Japanese Chair submitted a report to Leaders in advance of their summit in Osaka in June 2019. In Osaka, G20 Leaders noted the progress made by the GFSEC and called on relevant Ministers of the GFSEC to explore and reach a consensus by fall 2019 on ways to further the work of the Forum (see Annex 5). This Ministerial report presents the work and progress of the GFSEC, in particular the results obtained from the information sharing and review process, followed by the commitments taken by some GFSEC members towards the
sustainable development of the steel industry. The last section of the report suggests next steps to be undertaken by the Global Forum.

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.

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 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 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.

**b) 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.


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.

Section II. Work and progress of the Global Forum on Steel Excess Capacity: 
Insights from the information sharing and review process

13. This section provides an overview of the work and progress of the GFSEC, covering in particular insights from the information sharing and review processes including overview of past experiences, steel market conditions, capacity developments and excess capacity, eliminating subsidies and other support measures that contribute to excess capacity, and inferences for future action. More detailed information is provided in Annexes 1 & 2.

Work undertaken in the GFSEC

14. Since its inception, based on its Terms of Reference and guided in particular by the principles and commitments laid out in the Berlin and Paris Ministerial Reports, the GFSEC has worked to enhance communication, information sharing and cooperation among members, and to take effective steps to address the challenges of steel excess capacity.

15. More specifically, in early 2017, the Global Forum established an information-sharing mechanism to exchange information on crude steel capacity developments and government policies and measures affecting excess capacity. Since 2018, GFSEC members have also shared relevant information on policies and measures including market-distorting subsidies and other government support measures in line with the policy recommendations specified in the Berlin Ministerial Report. A review process, which was established in 2018 pursuant to principle VI of the Berlin Ministerial Report, complements the information sharing. Taking into account the outcome of the information sharing and review process, members have each undertaken action as considered appropriate by themselves based on their common commitments and in line with the spirit of the GFSEC.

16. Under the Japanese Chair, discussions among GFSEC members were also held in the context of input from steel sector representatives and international associations, who shared their diverse experiences of steel industry restructuring and adjustment as well as lessons learned, their views on the current situation and future outlook, and key insights to avoid the expansion and re-emergence of excess capacity in the future.
Overview of past experiences shared through the GFSEC process

17. The steel industry has long been a key component of industrialisation and a source of economic growth, because of its central position in global value chains and its importance as an essential material for many manufacturing, construction, and infrastructure applications. The global steel industry has grown significantly since the 1950s, not only in terms of the volume produced, but also in terms of the geographic dispersion of production activity across countries and regions of the world. In 1950, only 189 million tonnes of steel were produced globally, a small fraction of the 1,808.4 million tonnes produced in 2018. Despite characteristics unique to each national steel industry, there are common features shared by all steel-producing economies. As demonstrated by different examples in the past, overinvestment has led to excess capacity, resulting in persistent oversupply, low prices and weak profitability for the industry.

18. In some instances in the past, inaccurate expectations of future steel demand and underestimation of the consequences of overinvestment in the steel industry led to excess capacity. Since modern steel industries are capital intensive, relying on an immense amount of fixed investment, there is limited flexibility on the supply side to respond effectively to changes in demand once capacity is installed.

19. Market-distorting subsidies and other government support contribute to excess capacity by fuelling investments not linked to market-based economic considerations. By limiting market forces, such measures exacerbate imbalances between steel demand and supply, resulting in persistent oversupply, low prices and weak industry profitability. Inefficient producers, which normally would exit the industry in the absence of special conditions or government support, can also be kept alive through market-distorting policies, thereby further widening the gap between demand and supply and resulting in an increase of excess capacity.

20. Previous experiences show that steel crises arise when both governments and industry delay the structural adjustment that is necessary to alleviate excess capacity. Moreover, when excess capacity is not addressed in a meaningful way, the eventual adjustment is more abrupt and painful, and the economic and social consequences more severe.

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2 See, inter alia, presentations provided at the GFSEC meeting on 28 March, 2019, as well as information referred to in paragraph 66 of Annex 1 of this report and in paragraphs 54 to 66 of Annex 2 of the Paris Ministerial Report.
21. Addressing the problem of excess capacity in the past has been realised through a broad range of measures that encouraged structural adjustment and facilitated the closure of inefficient, economically unviable steel making facilities, largely in line with the principles laid out in the Berlin Ministerial Report. As noted in that report, 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. The key challenge has been to coordinate different policy levers to obtain a policy mix that is conducive to restructuring the steel sector while enhancing market function and ensuring competitive conditions. Subsidies and other support measures that facilitate the permanent closure of steel plants may be beneficial, but their proper implementation needs to be carefully analysed and follow strict guidelines.

22. Structural adjustment reinforced by such measures has been particularly successful when implemented in a continuous and consistent manner. Where sustained efforts for structural adjustment have been maintained over the long term, the social costs of dealing with the next steel crisis have been reduced, as there is less scope or need for drastic realignment to be forced upon the steel industry. GFSEC governments and industry share the view that such lessons from past experiences can inform present and future actions.

Steel market conditions, capacity developments and excess capacity

23. The steel market embarked on a path of gradual recovery after bottoming out in 2015. Although the pace of recovery diverged significantly across economies, most regions continued to show some improvement until 2018, when growth in the market began to decelerate.

24. Growing steel demand from 2016 onwards supported a rebound in steel prices from their lows in 2015 until the early part of 2018, and in line with the price, the profitability of some steel producers improved. However, since the second half of 2018, steel prices have adjusted downwards and the average financial performance of steel companies deteriorated in 2018. The significant periodic drops in prices, resulting from over-supply conditions, can quickly reduce the overall profitability of the industry.
25. Other indicators are also pointing to more subdued market fundamentals. Steel production and demand are still increasing, but growth rates slowed in 2018 relative to 2017. Leading indicators such as purchasing managers’ indexes of new orders continue to point to weakness in market sentiment.

26. Total crude steel production reached 1,808.4 million metric tonnes (mmt) in 2018, an increase of 4.5% compared to 2017; this rate has stabilised during the first eight months of 2019. Global conditions have been affected by developments in the Chinese market, which plays an important role given that its production in 2018 (928.3 mmt) accounted for more than half of the world total. According to information provided by China, capacity reductions have continued in that economy, providing positive momentum, and continue to be a fundamental driver of the overall outlook given the global capacity-demand gap.

27. Comparing capacity levels in 2018 with those in 2014, large relative capacity reductions were reported in China, the European Union, South Africa, with capacity decreasing respectively by 9.0% (101.6 mmt), 6.2% (14.3 mmt), and 5.3% (0.5 mmt). Japan and the United States also saw a reduction of 3.8% (5.2 mmt) and 1.0% (1.2 mmt) respectively. Increases over the same period were registered by India (29.5%, 32.4 mmt), Saudi Arabia (25.7%, 2.1 mmt), Indonesia (19.8%, 2.0 mmt), Argentina (11.8%, 0.8 mmt), Mexico (11.1%, 3.0 mmt), Brazil (8.5%, 4.0 mmt), Turkey (3.3%, 1.7 mmt), Russia (0.8%, 0.6 mmt), Canada (0.7%, 0.1 mmt) and Korea (0.6%, 0.5 mmt), albeit under very different conditions and with very different implications for global markets depending on their market shares.

28. Focusing on the period from 2016, when the GFSEC was established, to 2018, permanent capacity closures totalled 195.6 mmt, although due to gross additions, net reductions were substantially lower than this figure. Among GFSEC members, China, India and the European Union reported the largest volume of closures in absolute terms, by 153.0 mmt, 24.9 mmt and 8.7 mmt respectively.

29. Notwithstanding their different roles in relation to the problem of global excess capacity, members have contributed in diverse ways to address excess capacity. The various approaches include, for example, capacity reductions, avoidance of subsidies or other

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3 See the World Steel Association World Steel in Figures 2019 and press release from 26th September 2019.

4 See Table 3, Annex 1 for data on permanent capacity closures.
market-distorting support measures contributing to excess capacity, or increasing capacity
in line with paragraph 68 of the Berlin Ministerial Report. Full details for each member
are provided in the Annexes.

30. Available global data for 2018 show that global crude steelmaking capacity exceeded steel
demand (in crude steel equivalent) by 504 mmt in 2018. This figure illustrates in a simple
way both the progress made so far and the challenges yet to be addressed.

31. On the one hand, it shows continued improvement since 2015, when the gap reached 703
mmt. A substantial portion of this reflects the reduction efforts in China, which has stated
that it has reduced its production capacity by over 150 mmt in 2016-2018, paying a cost for
resettling over 270,000 workers. Further clarification and analysis is required regarding
these figures and their relationship to the reported 100 mmt capacity reduction in China
(see Annex 1). While most members’ economies are not at the root, but rather at the
downstream side of the cause-and-effect chain of the current bout of excess capacity, there
have been many economies in which the operation of market forces has been the main
driving force behind capacity reductions, which have contributed significantly to
alleviating the problem. Together, these trends illustrate that the response to excess
capacity has been global and has occurred through different channels reflecting members’
different institutional settings.

32. On the other hand, after three years of improved market conditions, the gap still continues to
be large, representing continued vulnerability to both short term risks from cyclical economic
factors, and longer-term risks outlined in paragraphs 37 to 42 below. Cyclical increases in
steel demand alone will not solve the current crisis of excess capacity, which is structural in
nature.

33. The need for continued vigilance can also be seen from revisiting longer-term perspectives
on capacity developments from 2000, when the global gap stood at 226.6 mmt, assessed in

5 Consistent with the Paris Ministerial Report, calculations of capacity-demand gaps in this report
use the “real growth” from the World Steel Association’s Short Range Outlook which disregards the
statistical effects of the closure of induction furnaces in China. The real global growth rate for
finished steel demand in 2018 was 2.2%. This is necessary to ensure comparability with past figures.
On an unadjusted basis, the capacity-demand gap would be 425 mmt. For the World Steel
Association’s Short Range Outlook, see https://www.worldsteel.org/en/dam/jcr:c93c5979-982d-
497b-b24f-a7d5cb17eff/SRO%2520Press%2520Release%2520Table.pdf

6 For comparison, the largest gap between steelmaking capacity and demand until the year 2000 was
329.6 mmt in 1982.
the Paris Ministerial Report. This indicates that the overall outlook remains unchanged, albeit with continued modest progress. Capacity in GFSEC member economies in 2018 was up by approximately 269.4 mmt in 2018 compared to 2010 and by 1039.2 mmt compared to 2000, widely outpacing the increases in demand for steel. Recent capacity reductions, while worthy of acknowledgment, have not eliminated this underlying disparity.

34. As noted in the Paris Ministerial Report, trends differed among 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, the latter’s capacity was up by 863.5 mmt in 2018 compared to 2000, while over the same period domestic demand increased by 607.2 mmt in crude steel equivalent terms.7 Also, looking at the trend of the capacity-demand gap between 2000 and 2017, the gap has remained relatively constant in most members’ economies.

Figure 1. Evolution of the demand-capacity gap by economy, 2000-2017

Source: OECD calculations based on OECD and World Steel Association statistics.

35. Looking ahead, forecasts by the World Steel Association released in October 2019 indicated that global steel demand would grow by 2.0% globally in 2019 and 1.7% in 2020, down compared to past years (2.2% in real terms in 2018), although with regional variations.8 In

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7 These figures are adjusted as described in footnote 6.
8 World Steel Association, 14th October 2019. For 2019, the forecast growth rates are minus 0.1%
their forecasts, the World Steel Association highlights that growth in steel demand will continue this year, but in a more unpredictable economic environment. Moreover, risks associated with uncertainties over the trade environment and financial market volatility could affect the forecast.9

36. Overall, current conditions underline the conclusions reached in the Berlin and Paris Ministerial Reports. The gap between steelmaking capacity and demand remains significant and of a magnitude that continues to challenge the industry’s long-term viability, warranting accelerated reductions in total capacity. With short-term economic uncertainty rising, governments face an even greater urgency to address the underlying causes of excess capacity in the steel industry and prevent its re-emergence in the future.

37. Taking a closer look at future trends, global future steel demand growth in the mid- to long-term (until 2040) is expected to be around 0.8 per cent per annum, with regional variations.10 It is estimated that, based on an evaluation of changes in steel intensity per GDP by region, steel demand in developing countries at an earlier stage of economic development with greater scope for industrialization and infrastructure development is generally expected to grow at a higher rate than in developed countries. Variation among developing countries is also expected, where a conservative estimate about steel demand in developing countries at a later stage of economic development shows that steel demand may peak.

for developed economies, 4.0% for China and 0.4% for developing economies excluding China. For 2020, the figures are 0.6%, 1.0% and 4.1% respectively.
9 World Steel Association, 16th April 2019 and 14th October 2019.
10 The compound annual growth figure was provided by the World Steel Association at its presentation given in the October 2019 GFSEC meeting. Other figures provided to the OECD by independent analysts suggest slightly lower growth of 0.7%.
38. On the capacity side, many economies are building up their steel capacities significantly. Publicly available sources highlight the existence of many new steelmaking capacity projects around the world, which are either already underway or in the planning stages. A number of these projects represent cross-border investments. Planned capacity increases, as well as additional capacity increases from projects where the start-up date has currently not been indicated, could, if not guided by Berlin Ministerial principles, overshoot increases in demand, with even greater risks if demand growth falls below expectations. This issue should be carefully followed by the Forum as we move forward.

39. An important dimension to follow is the potential replacement of domestic capacity decreases in some jurisdictions by increasing capacity abroad, particularly when market-distorting support measures appear to be playing a role. This underlines the importance of continuing the Forum’s work pursuant to paragraphs 67 and 68 of the Berlin Ministerial Report. Increases in capacity should follow demand conditions and market forces, investment should be economically sustainable in the long term and fair international trade should play its full role in meeting expected increases in demand.

40. If the current trend in capacity increases continues in a fashion contrary to paragraphs 67 and 68 of the Berlin Ministerial Report, and no action is taken to reverse it, there is a risk that the global excess capacity problem may worsen. As noted in the Paris Ministerial Report, at
constant capacity and expected long-term demand growth, it would take decades to fully absorb the current capacity-demand gap.

41. Furthermore, an examination of the relationship between steel use and GDP growth suggests that structural changes such as the shift towards lighter and stronger steel products have contributed to a continued lowering of steel intensity (the amount of steel used to generate one unit of GDP) globally. 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. In addition, the impact of emerging trends such as the transition to a circular economy are worthy of further analysis.

42. These issues indicate there are legitimate grounds for concern that the imbalance between steel demand and supply may turn out to be even more pronounced than expected. There is a clear sense of urgency for GFSEC members to maintain and enhance efforts to rein in excess capacity where it exists. 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.
Eliminating subsidies and other support measures that contribute to excess capacity

43. During the two rounds of information sharing in 2019, members provided updated information on their measures and practices associated with the facilitation of closures, maintenance or support of the domestic production base, corporate restructuring and industry upgrading and innovation. Members have also provided updated information on existing measures and practices in the following policy areas: 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. A detailed description of the information shared is provided in Annex 1.

44. During the two rounds of information sharing in 2019, four members (Canada, the European Union, Japan and the United States) provided additional information on specific subsidies and other support measures by government or government-related entities in place in their economies. For instance, Canada reported contributions that were provided to three companies to support their investments in innovation and capital expenditures. The European Union reported a measure taken by a Member State to avoid undermining companies’ ability to meet their legal obligations due to institutional changes. Japan and the United States provided information on government support for R&D. The United States also shared information on measures to support local job creation and to upgrade workers’ skills. Members who shared information on these measures, 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.

45. The review process allows members to ask questions on support measures of other members, including those that have not been reported by that member during the information sharing process. Two rounds of reviews took place under the Japanese Chair between December 2018 and September 2019, building on the work done up to the 2018 Paris Ministerial. In line with the nature of the GFSEC, which is neither an international negotiation body setting new rules, nor a dispute settlement mechanism which makes rulings that result in binding obligations under international law, the reviews were conducted with the aim of increasing transparency among members through the sharing of information, frank and informative discussion and exchange of views regarding their
capacity data as well as subsidies and other types of support by government and
government-related entities which may contribute to excess capacity.11

46. The process covered all participating economies and a wide range of views were
exchanged. The process and assessment is expected to inform the choice of members to
provide voluntary commitments in line with paragraph 52 of the Paris Ministerial Report.
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. The review process could serve as possible guidance for all
members.

47. In addition to the conclusions in the Paris Ministerial Report, the salient results of the
collective discussions are summarized as follows. A more detailed overview is provided
in Annexes 1 & 2.

- Australia: The discussion centred around tax benefits provided by the local
governments as well as support to retrenched workers. The evidence at hand and the
balance of the collective exchanges do not indicate that these would fall under
paragraph 57 of the Berlin Ministerial Report.

- Brazil: The discussion centred around the government’s role in mergers and
acquisitions. The evidence at hand and the balance of the collective exchanges do not
indicate that these practices would fall under paragraph 57 of the Berlin Ministerial
Report.

- Canada: The discussion centred around support measures by federal and
subnational/provincial governments, such as loans, grants, tax rebates and provision of
energy. The evidence at hand and the balance of the collective exchanges do not
indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- The European Union and its Member States: The discussion centred around export
credits, support measures by Member States, EU support for research and development,
provision of energy and other inputs for less than adequate remuneration, the
government’s role in mergers and acquisitions, and bankruptcy proceedings. The

11 The contribution to excess capacity is central to this exercise. Support measures should be seen in
the light of how different jurisdictions have contributions thereto, not least in view of capacity
developments.
evidence at hand and the balance of the collective exchanges do not indicate that the measures and practices discussed would fall under paragraph 57 of the Berlin Ministerial Report.

- India: The discussion centred around local content requirements and bankruptcy proceedings. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- Indonesia: The discussion centred around government support in the form of raw material support, loans, tax allowances and holidays. While discussion continues, the evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- Japan: The discussion centred around support for research and development and employment adjustment assistance. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- Korea: The discussion centred around bankruptcy proceedings. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- Mexico: The discussion centred around measures applying to temporary imports. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- The People’s Republic of China: The discussion centred around preferential financing; equity infusions and investment funds; awards, grants; tax benefits in the form of tax exemptions, reductions, credits and rebates, and taxable income write offs; input and raw material support including the effects of the combination of export tariffs and quotas, licensing requirements and tax rebates which may reduce the price of certain inputs; application of bankruptcy provisions; and support for outward investment. In general, views pointed to some measures falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case, since as part of its drive to reduce excess capacity, it prohibits support not based on market principles, whether at central or sub-central levels and that the 79 support measures for which it has provided information were aimed at resettling workers, environmental protection or energy conservation.
- Russia: The discussion centred around bankruptcy proceedings. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- South Africa: The discussion centred around bankruptcy proceedings. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- Turkey: The discussion centred around bankruptcy proceedings. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

- The United States: The discussion centred around grants at the federal level and support measures by local governments, the latter including preferential loans, grants, tax credits, tax exemptions, tax reductions and lax enforcement of environmental regulations. The evidence at hand and the balance of the collective exchanges do not indicate that these would fall under paragraph 57 of the Berlin Ministerial Report.

48. The results of the review process demonstrate that the exercise continues to shed light on government measures and practices, complementing the information provided by members in the context of the information sharing process, and helping to achieve the objectives set out in the Berlin Ministerial recommendations. Taken together, this information provides a useful basis upon which to develop voluntary commitments with regard to these measures. All members can learn from each other, and each should take necessary steps to ensure that regardless of whether market distorting support measures that contribute to excess capacity exist at present, such measures are not introduced in their economies in the future.

**Inferences from the information sharing and review process for future action**

49. The informative exchanges of experiences amongst members is one of the key pillars of the GFSEC work—and an invaluable tool to learn from each other, fully address excess capacity and prevent its recurrence. Such experiences provides an empirical, fact-based framework with objective parameters for analysis. Keeping in mind lessons from past experiences and objective analyses of the current situation, the information sharing and review processes amongst members yielded the following suggestions, which may be inferred as guidance for actions in the future.
50. The GFSEC applauds China’s efforts to reduce net capacity by 100-150 mmt in the 2016-2020 period. China also states that it continues to implement the policy that prohibits new capacity and any newly established capacity would be based on the precondition that more existing capacities are reduced, ensuring no further addition in capacities. The GFSEC also underlines the contribution made by other members as described under paragraphs 28 to 31 above. In line with paragraph 48 of the Paris Ministerial Report, the GFSEC suggests further reductions in capacity, along the same lines. In line with the dimension and distribution of the persisting capacity-demand gap and taking into account China’s important position in the world market, China’s role in future reductions would be central. All Forum members have important contributions to make in this regard. They should maintain a market-based approach strictly in line with Berlin Ministerial principles and eliminate market-distorting support measures that contribute to excess capacity, reflecting the outcomes of the review process.

51. For economies with excess capacity where economic growth rates have stabilized or are diminishing, the primary risks stem from delayed structural adjustments because of government measures that result in maintaining inefficient capacity to avoid short-term social costs. Past experiences have shown that this can result in a loss of market competitiveness followed by an eventual need for more painful measures to realize the necessary adjustments. For economies that already have a certain level of production capacity, it thus seems to be important to eliminate or avoid taking such measures in the first place, and instead concentrate on providing and/or maintaining support for the closure of inefficient, economically unviable facilities, labor-force adjustment and future-oriented innovation where warranted, as well as providing for market-oriented competitive environments. 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.

52. For example, as noted in paragraph 28 of the Paris Ministerial Report, 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

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12 The experience mentioned in paragraph 39 of the Paris Ministerial Report could inform the exercise under paragraph 48 of that report.
13 See, inter alia, presentations provided at the GFSEC meeting on 28 March, 2019, as well as information referred to in paragraph 66 of Annex 1 of this report and in paragraphs 54 to 66 of Annex 2 of the Paris Ministerial Report.
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. Several GFSEC members have provided information on employment adjustment measures in place for addressing the social cost of restructuring (see Annex 1).

53. Historically, economies with high economic growth rates had underestimated the consequences of overinvestment in the steel industry. For emerging economies that are expected to grow rapidly in the coming years, it is necessary to refrain from measures that support capacity expansion as per paragraph 68 of the Berlin Ministerial Report. They are encouraged to take measures that facilitate structural adjustment when necessary. Both public and private actors are suggested to keep in mind not only expected domestic growth prospects but also risk factors such as the possibility of sudden external economic shocks, developments in steel quality and usage that lead, over time, to less steel being required for similar stages of economic development, and broader global trends affecting steel demand such as the trend towards services and digitalisation.
Section III. Commitments taken by GFSEC members and next steps to be undertaken by
the GFSEC towards sustainable development of the steel industry

54. As noted in paragraph 14, the mission of this Forum under its Terms of Reference has been
twofold: to enhance communication, information sharing and cooperation among members,
and to take effective steps to address the challenges of steel excess capacity. Section II of
this report presents the progress made towards achieving this mission, in particular its first
pillar. Some progress has also been made with regard to the second pillar, as reflected in
the improvement in the global balance between capacity and demand.

55. Based on their shared view that lessons from past experiences can inform subsequent actions
and taking into consideration the results of the GFSEC review process, GFSEC members
reiterate their common commitment to uphold the six principles agreed at the Berlin
Ministerial and agree to provide individual commitments on a voluntary basis as outlined in
Annex 3. Recalling the mandate from the G20 Osaka Leaders’ Declaration, the GFSEC
recognizes the progress made so far and reaffirms that global excess capacity should be
eliminated and its re-emergence avoided. Members look forward to further the GFSEC’s
work beyond December 2019, following the Berlin and Paris Ministerial Reports and this
Ministerial Report.

56. To continue the work of the GFSEC, members will, in 2020, submit updated information on
policy measures and on capacity developments through the existing questionnaire as the basis
for review, analysis and discussion among members. Meetings will take place in the spring
and fall. Information on capacity developments, support measures and other policies will be
shared one month before both meetings.

57. To fully carry out the Berlin Ministerial recommendations, GFSEC members also recognize
the need to further enhance the role of the GFSEC as an important platform to exchange
knowledge and experiences related to addressing steel excess capacity for the sustainable
development of the steel sector. In this regard, the GFSEC will host collaborative events in
2020 in conjunction with GFSEC meetings with input and participation from a broad range
of steel sector representatives and international associations, to deepen exchange on Berlin
Ministerial recommendations, in particular:

-establisshing framework conditions where labour markets and social security systems
adequately support adjustment;
- fostering industry restructuring by assisting displaced workers; and

- sharing best practices of steel industry adjustment and exchanging experiences on new sources of steel demand.

List of Annexes:
Annex 1. Latest results of the information sharing and review process
Annex 2. Details of the review process
Annex 3. Voluntary commitments
Annex 4. Global Forum members’ policies and views on addressing capacity
Annex 5. Extracts from G20 Communiqués (G20 Leaders (Osaka), G20 Leaders (Buenos Aires), G20 Leaders (Hamburg), G20 Leaders (Hangzhou), G20 Trade Ministers (Shanghai), G20 Finance Ministers (Chengdu))
Annex 8. Terms of Reference of the GFSEC
Annex 1. Latest results of information sharing and of the review process

1. Under the aegis of the GFSEC Chair, two rounds of information sharing took place between December 2018 and September 2019. GFSEC members were invited to update their capacity and policy information for the year 2018 and to provide information available for 2019 to the extent possible. As before, the information sharing was conducted by completing and updating the three parts of the questionnaire: Part 1 (Nominal steelmaking capacity developments, including provision of new data for 2018), Part 2 (Government policies, measures and practices which potentially influence crude steel capacity and market developments) and Part 3 that addresses the policy recommendations approved at the Berlin GFSEC Ministerial meeting.

2. This annex provides a summary of the information shared by GFSEC members during these two rounds of information sharing in 2019. The first section of the summary examines capacity developments in GFSEC economies, and highlights trends at the aggregate level. The second section provides a brief overview of the latest updates made by members in Part 2 of the questionnaire. It is followed by an overview of the existing measures and practices reported by GFSEC members in Part 3 of the questionnaire 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. The last section provides an overview of the results of the review process with respect to subsidies and other types of support by government and government-related entities that was held at the GFSEC meetings on 12-13 December in Tokyo, and on 28-29 March and on 30 September in Paris.

1. Steelmaking capacity developments in the GFSEC economies

3. 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 (2018) at the aggregate and 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 to, 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.

4. Following the two rounds of information sharing in 2019, all members of the GFSEC have shared data on aggregate capacity, additions and closures for 2018, as well as disaggregated (plant or site level) data for 2018. They also updated the figures for 2014-17 where necessary and were
invited to provide information on key developments in crude steelmaking capacity that occurred in the first half of 2019, if they wished to do so.

Existing capacity

5. The 33 members of the GFSEC account for the vast majority of the world's capacity. In 2018, the total combined capacity reported by the 33 GFSEC members amounted to 1,993.5 million metric tonnes (mmt), according to the updated information shared by members in September 2019. This updated figure reflects a decline of 75.6 mmt compared to the levels of 2014 corresponding to a 3.7% reduction in relative terms. With capacity of 1,026.9 mmt in 2018, China accounted for the largest share of existing capacity within the GFSEC (51.8%), followed by the European Union (10.8%), India (7.1%), Japan (6.6%), the United States (5.8%), the Russian Federation (4.3%), Korea (4.0%), Turkey (2.6%), Brazil (2.6%) and Mexico (1.5%).

6. All members reported capacity figures for 2018 (see Table 1). The aggregate data suggest that capacity among GFSEC economies slightly decreased (-7.2 mmt) in 2018 compared to 2017. In 2018, increases in capacity occurred in India (4.3 mmt), Indonesia (1.2 mmt), in Turkey (0.7 mmt) and South Africa (0.2 mmt). Capacity declines in 2018 were observed in China (10.3 mmt), Japan (1.4 mmt), Korea (0.6 mmt), the United States and Russian Federation (each 0.5 mmt) and in the European Union (0.4 mmt). Of the EU Member States participating in the GFSEC, Poland and Germany increased capacity by 0.2 and 0.1 mmt respectively, while the Netherlands decreased its capacity by 0.2 mmt. The remaining members did not experience any change in capacity in 2018 relative to 2017.

7. Comparing capacity levels in 2018 with those in 2014, large capacity decreases were reported in China and in the European Union, with capacity decreasing by 101.6 and 14.3 mmt respectively. Reported steelmaking capacity also decreased in Japan by 5.2 mmt, by 1.2 mmt in the United States and by 0.5 mmt in South Africa. Within the European Union, the largest capacity decreases occurred in the United Kingdom (3.9 mmt), Italy (2.2 mmt), Spain (1.5 mmt), Luxembourg (0.9 mmt), Germany (0.8 mmt), the Slovak Republic (0.7 mmt), Hungary and France (0.6 mmt) and the Netherlands (0.4 mmt). Increases over the same period were registered by India (32.4 mmt), Brazil (4.0 mmt), Mexico (3.0 mmt), Saudi Arabia (2.1 mmt), Indonesia (2.0 mmt), Turkey (1.7 mmt), Argentina (0.8 mmt), Russia (0.6 mmt), Korea and Poland (each by 0.5 mmt), Belgium (0.3 mmt), and Canada (0.1 mmt).

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1 Nine members commented on capacity developments in the first half of 2019. Among these, Russia and Saudi Arabia provided the full set of details concerning the year 2019, while Spain commented on specific plants in its economy. Canada, Mexico, Norway, Poland, South Africa and Turkey commented on the key developments in the first half of the year.
Table 1. GFSEC figures for crude steelmaking capacity in GFSEC member economies: 2014-2018

(1000s metric tonnes)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China*</td>
<td>1,128,510</td>
<td>1,126,880</td>
<td>1,073,330</td>
<td>1,037,224</td>
<td>1,026,930</td>
<td>-101,580</td>
<td>-9.0%</td>
<td>-4.91%</td>
</tr>
<tr>
<td>European Union, of which**:</td>
<td>230,093</td>
<td>222,693</td>
<td>218,816</td>
<td>216,261</td>
<td>215,836</td>
<td>-14,257</td>
<td>-6.2%</td>
<td>-0.69%</td>
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<td>Germany</td>
<td>50,881</td>
<td>50,881</td>
<td>50,081</td>
<td>49,921</td>
<td>50,041</td>
<td>-840</td>
<td>-1.7%</td>
<td>-0.04%</td>
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<td>Italy</td>
<td>38,606</td>
<td>36,206</td>
<td>36,206</td>
<td>36,456</td>
<td>36,456</td>
<td>-2,150</td>
<td>-5.6%</td>
<td>-0.10%</td>
</tr>
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<td>France</td>
<td>22,021</td>
<td>22,021</td>
<td>21,941</td>
<td>21,466</td>
<td>21,466</td>
<td>-555</td>
<td>-2.5%</td>
<td>-0.03%</td>
</tr>
<tr>
<td>Spain</td>
<td>20,310</td>
<td>20,310</td>
<td>19,610</td>
<td>18,860</td>
<td>18,860</td>
<td>-1,450</td>
<td>-7.1%</td>
<td>-0.07%</td>
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<tr>
<td>Poland</td>
<td>12,260</td>
<td>12,260</td>
<td>12,260</td>
<td>12,560</td>
<td>12,710</td>
<td>450</td>
<td>3.7%</td>
<td>0.02%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15,097</td>
<td>11,197</td>
<td>11,202</td>
<td>11,202</td>
<td>11,202</td>
<td>-3,895</td>
<td>-25.8%</td>
<td>-0.19%</td>
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<tr>
<td>Belgium</td>
<td>8,620</td>
<td>8,620</td>
<td>8,900</td>
<td>8,900</td>
<td>8,900</td>
<td>280</td>
<td>3.2%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Austria</td>
<td>8,595</td>
<td>8,595</td>
<td>8,595</td>
<td>8,595</td>
<td>8,595</td>
<td>0</td>
<td>0.0%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>7,260</td>
<td>7,260</td>
<td>7,000</td>
<td>7,000</td>
<td>6,813</td>
<td>-447</td>
<td>-6.2%</td>
<td>-0.02%</td>
</tr>
<tr>
<td>Sweden</td>
<td>5,950</td>
<td>5,950</td>
<td>5,950</td>
<td>5,950</td>
<td>5,950</td>
<td>0</td>
<td>0.0%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>5,520</td>
<td>5,520</td>
<td>5,520</td>
<td>4,860</td>
<td>4,860</td>
<td>-660</td>
<td>-12.0%</td>
<td>-0.03%</td>
</tr>
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<td>Greece</td>
<td>4,760</td>
<td>4,760</td>
<td>4,760</td>
<td>4,760</td>
<td>4,760</td>
<td>0</td>
<td>0.0%</td>
<td>0.00%</td>
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<td>Finland</td>
<td>4,530</td>
<td>4,530</td>
<td>4,530</td>
<td>4,530</td>
<td>4,530</td>
<td>0</td>
<td>0.0%</td>
<td>0.00%</td>
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<tr>
<td>Luxembourg</td>
<td>3,322</td>
<td>3,322</td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
<td>-922</td>
<td>-27.8%</td>
<td>-0.04%</td>
</tr>
<tr>
<td>Hungary</td>
<td>2,650</td>
<td>2,650</td>
<td>2,050</td>
<td>2,050</td>
<td>2,050</td>
<td>-600</td>
<td>-22.6%</td>
<td>-0.03%</td>
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<tr>
<td>India</td>
<td>109,851</td>
<td>121,971</td>
<td>128,276</td>
<td>137,975</td>
<td>142,236</td>
<td>32,385</td>
<td>29.5%</td>
<td>1.57%</td>
</tr>
<tr>
<td>Japan</td>
<td>136,268</td>
<td>135,679</td>
<td>134,447</td>
<td>132,411</td>
<td>131,055</td>
<td>-5,213</td>
<td>-3.8%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>United States</td>
<td>115,795</td>
<td>113,620</td>
<td>115,071</td>
<td>115,052</td>
<td>114,595</td>
<td>-1,200</td>
<td>-1.0%</td>
<td>-0.06%</td>
</tr>
<tr>
<td>Russia</td>
<td>84,755</td>
<td>84,755</td>
<td>85,755</td>
<td>85,855</td>
<td>85,395</td>
<td>640</td>
<td>0.8%</td>
<td>0.03%</td>
</tr>
<tr>
<td>Korea</td>
<td>79,644</td>
<td>80,244</td>
<td>80,744</td>
<td>80,744</td>
<td>80,144</td>
<td>500</td>
<td>0.6%</td>
<td>0.02%</td>
</tr>
<tr>
<td>Turkey</td>
<td>50,213</td>
<td>50,439</td>
<td>51,506</td>
<td>51,181</td>
<td>51,884</td>
<td>1,671</td>
<td>3.3%</td>
<td>0.08%</td>
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<td>Brazil</td>
<td>47,410</td>
<td>47,960</td>
<td>51,450</td>
<td>51,450</td>
<td>51,450</td>
<td>4,040</td>
<td>8.5%</td>
<td>0.20%</td>
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<td>Mexico</td>
<td>26,555</td>
<td>29,105</td>
<td>29,505</td>
<td>29,505</td>
<td>29,505</td>
<td>2,950</td>
<td>11.1%</td>
<td>0.14%</td>
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<td>Canada</td>
<td>17,342</td>
<td>17,467</td>
<td>17,467</td>
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<td>17,467</td>
<td>125</td>
<td>0.7%</td>
<td>0.01%</td>
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<td>Indonesia</td>
<td>9,941</td>
<td>10,031</td>
<td>10,681</td>
<td>10,681</td>
<td>11,905</td>
<td>1,964</td>
<td>19.8%</td>
<td>0.09%</td>
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<td>Saudi Arabia</td>
<td>8,306</td>
<td>9,241</td>
<td>10,341</td>
<td>10,441</td>
<td>10,441</td>
<td>2,135</td>
<td>25.7%</td>
<td>0.10%</td>
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<td>South Africa</td>
<td>10,110</td>
<td>9,230</td>
<td>9,410</td>
<td>9,410</td>
<td>9,570</td>
<td>-540</td>
<td>-5.3%</td>
<td>-0.03%</td>
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<td>Argentina</td>
<td>6,532</td>
<td>6,650</td>
<td>6,650</td>
<td>7,300</td>
<td>7,300</td>
<td>768</td>
<td>11.8%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Australia</td>
<td>5,570</td>
<td>5,570</td>
<td>5,570</td>
<td>5,570</td>
<td>5,570</td>
<td>0</td>
<td>0.0%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,370</td>
<td>1,370</td>
<td>1,370</td>
<td>1,370</td>
<td>1,370</td>
<td>0</td>
<td>0.0%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Norway</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>0</td>
<td>0.0%</td>
<td>0.00%</td>
</tr>
<tr>
<td>GFSEC total</td>
<td>2,069,065</td>
<td>2,073,705</td>
<td>2,031,189</td>
<td>2,000,697</td>
<td>1,993,453</td>
<td>-75,612</td>
<td>-3.7%</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes: * The aggregate capacity figures provided by China in this table are official statistics on capacity provided by the National Bureau of Statistics.

** The European Union’s figure refers to the total capacity of all the European Union Member States.
New additions

8. Regarding new additions of capacity, all members of the GFSEC shared data on aggregate capacity additions for 2018 (Table 2). For 2018, new capacity additions were reported by India (14.1 mmt), Indonesia (1.2 mmt), Turkey, Russia and the European Union (each by 0.7 mmt), as well as South Africa (0.2 mmt). Within the European Union additions were reported in Poland (0.2 mmt) and Germany (0.1 mmt).

9. New additions of crude steel capacity among GFSEC member economies totalled 149.6 mmt between 2014 and 2018. India (50%) and China (28%) accounted for the largest share, with new additions amounting to 76.0 mmt and 42.1 mmt, respectively, during this period. Additions were also registered in Brazil and Mexico (each 4.7 mmt), Saudi Arabia and the European Union (each 3.5 mmt), Turkey (3.3 mmt), Japan (2.7 mmt) Indonesia (2.2 mmt) and Korea (2.1 mmt) with several other GFSEC members reporting total additions below 2 mmt.

Table 2. New capacity additions in GFSEC member economies 2014-2018

<table>
<thead>
<tr>
<th>Economies with new additions</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>12,223</td>
<td>18,593</td>
<td>9,199</td>
<td>21,850</td>
<td>14,118</td>
<td>75,983</td>
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<td>0</td>
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<td>550</td>
<td>3,700</td>
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<td>0</td>
<td>4,650</td>
</tr>
<tr>
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<td>1,700</td>
<td>2,550</td>
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<td>4,650</td>
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<tr>
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<td>935</td>
<td>1,100</td>
<td>100</td>
<td>0</td>
<td>3,535</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Poland</td>
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<td>0</td>
<td>505</td>
<td>650</td>
<td>662</td>
<td>3,517</td>
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</tr>
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<td>Germany</td>
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<td>500</td>
<td>0</td>
<td>2,150</td>
</tr>
<tr>
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<td>0</td>
<td>250</td>
<td>0</td>
<td>2,500</td>
</tr>
<tr>
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<td>1,700</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,700</td>
</tr>
<tr>
<td>Turkey</td>
<td>974</td>
<td>298</td>
<td>1,242</td>
<td>83</td>
<td>703</td>
<td>3,300</td>
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<tr>
<td>Japan</td>
<td>1,100</td>
<td>564</td>
<td>1,058</td>
<td>0</td>
<td>0</td>
<td>2,722</td>
</tr>
<tr>
<td>Indonesia</td>
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<td>180</td>
<td>650</td>
<td>0</td>
<td>1,224</td>
<td>2,204</td>
</tr>
<tr>
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<td>700</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2,120</td>
</tr>
<tr>
<td>Russia</td>
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<td>700</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2,120</td>
</tr>
<tr>
<td>United States</td>
<td>1,451</td>
<td>90</td>
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<td>0</td>
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<td>1,541</td>
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<tr>
<td>Argentina</td>
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<td>118</td>
<td>650</td>
<td>0</td>
<td>0</td>
<td>960</td>
</tr>
<tr>
<td>South Africa</td>
<td>1,200</td>
<td>180</td>
<td>0</td>
<td>160</td>
<td>0</td>
<td>460</td>
</tr>
<tr>
<td>Canada</td>
<td>125</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>125</td>
</tr>
</tbody>
</table>

GFSEC total: 42,544 44,808 20,127 24,581 17,567 149,627

Note: * The European Union’s figure includes all the European Union Member States.
Capacity closures

10. With respect to capacity closures, all 33 members of the GFSEC shared data on aggregate closures of capacity in 2018 (see Table 3). In 2018 capacity closures took place in China (10.5 mmt), India (9.9 mmt), Japan (1.4 mmt), Russia (1.2 mmt), the European Union (1.1 mmt), Korea (0.6 mmt) and in the United States (0.5 mmt).

11. Between 2014 and 2018, 274.6 mmt of capacity were closed in GFSEC member economies. In absolute terms, the majority of these closures took place in China (201.2 mmt).

12. Closures of capacity also took place in India (36.0 mmt), the European Union (17.8 mmt), Japan (7.1 mmt), Korea (6.3 mmt), the United States (3.2 mmt), Russia (1.2 mmt), South Africa (1.0 mmt), Turkey (0.7 mmt) and Brazil (0.2 mmt).
Table 3. Permanent capacity closures in GFSEC member economies 2014-2018

<table>
<thead>
<tr>
<th>Economies with closures</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>total</th>
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</thead>
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<tr>
<td>China*</td>
<td>31,130</td>
<td>17,060</td>
<td>95,210</td>
<td>47,350</td>
<td>10,470</td>
<td>201,220</td>
</tr>
<tr>
<td>India</td>
<td>4,631</td>
<td>6,471</td>
<td>2,895</td>
<td>12,150</td>
<td>9,857</td>
<td>36,005</td>
</tr>
<tr>
<td>European Union, of which**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0</td>
<td>3,900</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3,900</td>
</tr>
<tr>
<td>Italy</td>
<td>0</td>
<td>2,400</td>
<td>0</td>
<td>1,000</td>
<td>0</td>
<td>3,400</td>
</tr>
<tr>
<td>Germany</td>
<td>1500</td>
<td>800</td>
<td>260</td>
<td>0</td>
<td>0</td>
<td>2,560</td>
</tr>
<tr>
<td>Spain</td>
<td>0</td>
<td>700</td>
<td>750</td>
<td>0</td>
<td>0</td>
<td>1,450</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0</td>
<td>922</td>
<td>0</td>
<td>0</td>
<td>922</td>
<td></td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>0</td>
<td>660</td>
<td>0</td>
<td>0</td>
<td>660</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>0</td>
<td>600</td>
<td>0</td>
<td>0</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>0</td>
<td>80</td>
<td>475</td>
<td>0</td>
<td>555</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>0</td>
<td>260</td>
<td>0</td>
<td>187</td>
<td>447</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>0</td>
<td>220</td>
<td>0</td>
<td>0</td>
<td>220</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>296</td>
<td>1,153</td>
<td>1,232</td>
<td>3,094</td>
<td>1,356</td>
<td>7,131</td>
</tr>
<tr>
<td>Korea</td>
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<td>820</td>
<td>200</td>
<td>0</td>
<td>600</td>
<td>6,320</td>
</tr>
<tr>
<td>United States</td>
<td>450</td>
<td>2,175</td>
<td>0</td>
<td>91</td>
<td>450</td>
<td>3,166</td>
</tr>
<tr>
<td>Russia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,161</td>
<td>1,161</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>0</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>0</td>
<td>72</td>
<td>175</td>
<td>408</td>
<td>0</td>
<td>655</td>
</tr>
<tr>
<td>Brazil</td>
<td>0</td>
<td>210</td>
<td>0</td>
<td>0</td>
<td>210</td>
<td></td>
</tr>
<tr>
<td><strong>GFSEC total</strong></td>
<td>42,892</td>
<td>36,151</td>
<td>104,304</td>
<td>66,298</td>
<td>24,981</td>
<td>274,627</td>
</tr>
</tbody>
</table>

Notes: * The closure data reported in this table are official administrative data provided by the National Development and Reform Commission (NDRC). This data collection methodology differs from that of the National Bureau of Statistics due to, among others, i) different thresholds for enterprise size, and ii) different time frames as noted below. On 30 November 2018, China noted that “the enterprise’s data on China’s crude steel capacity reduction in 2017 (i.e., the list of companies that have de-capacity from April 2017 to March 2018 and related capacity data) has been provided to the GFSEC in July. From April 2017 to March 2018, China reduced the steel production capacity of 47.35 million tons”. For the 2016 figure China noted that: “the enterprise’s data on China’s crude steel capacity reduction in 2016 (i.e. the list of companies that have de-capacity from January 2016 to March 2017 and related capacity data) has been provided to the GFSEC in July 2018. From January 2016 to March 2017, China reduced the steel production capacity of 95.21 million tons”. On May 10 2019, China noted that it “would like to provide the aggregate closure capacity data of 10.47mmt (April 2018 to March 2019) to the GFSEC”. The remaining figures refer to the calendar year.

**The European Union’s figure includes all the European Union Member States.
2. Overview of government policies and support measures in place in GFSEC economies

13. All members participated in the two rounds of information sharing in 2019 and updated their answers with respect to government policies and support measures in place in their economies. A brief overview of the latest information provided by members to Part 2 of the GFSEC questionnaire for information sharing is provided below. This part of the questionnaire focuses on government policies, measures and practices, which potentially influence crude steel-making capacity and market developments. It is followed by an overview of the information reported by GFSEC members in Part 3 of the questionnaire that addresses the policy recommendations agreed to in the Berlin Ministerial Report.

Overview of the latest updates to Part 2 of the questionnaire

14. The majority of GFSEC members updated their answers to Part 2 of the questionnaire. Seven members (Argentina, Brazil, Korea, Mexico, Norway, Switzerland and the United States) indicated that no updates were necessary in this part of the questionnaire at this stage as the information provided during the previous rounds of information sharing was up-to-date. Several other members (Australia, Canada, China, the European Union and its Member States, India, Indonesia, Japan, Russia, Saudi Arabia, South Africa and Turkey) updated their answers by providing additional information on relevant policies and measures or by revising the answers they had provided during previous rounds of information sharing.

15. More specifically, Australia shared additional information on specific initiatives to assist worker transition (question 2.4). Australia indicated *The Stronger Transitions package*, which supports retrenched workers in five regions affected by large-scale redundancies and where the local labour market faces difficulties. Australia also provided additional information on government procurement policies that require domestic steel content (question 2.5) as well as on measures for establishing and ensuring compliance with environmental standards among steel-producing facilities (question 2.9).

16. Canada shared information on steel safeguards under question 2.5 (*Maintaining or supporting the domestic production base*). Canada explained that provisional safeguard measures on seven steel products had been announced in October 2018 and that final safeguards for imports of heavy plate and stainless steel were implemented in April 2019. Canada also provided additional information on measures in place associated with encouraging plant modernisation (question 2.8 *Industry upgrading and innovation*). In this regard, Canada reported a contribution of CAD 60 million from the Federal Economic Development Agency for Southern Ontario (FedDev Ontario) and CAD 30 million from the Strategic Innovation Fund (SIF) to Algoma Steel Inc. Information was also provided on a contribution of CAD 49.9 million from the SIF to ArcelorMittal Canada Inc. These contributions were provided to two companies to support their investments in innovation and capital expenditures. Canada also reported a CAD 40 million investment by Innovation, Science and Economic Development Canada in EVRAZ North America to support a CAD 112.6-million project aimed at upgrading its facilities and increasing its competitiveness. Canada also provided information on measures to ensure that steel-producing facilities comply with environmental standards under question 2.9.

17. China provided additional information on measures for the resettlement of workers under question 2.4 of Part 2 of the questionnaire. In its answer to question 2.8 *Industry upgrading and innovation*, China provided information on the *Opinions on Promoting the Implementation of Ultra-low Emissions in the Steel Industry (Document No.35)*, released in April 2019 aimed at
promoting the realisation of environmental management in the steel industry to improve the quality and efficiency of the sector and to reduce the emissions of major air pollutants. Additional information was also provided on the measures to ensure compliance of steel-producing facilities with environmental standards (question 2.9a) and on financial support provided for the implementation of these measures. China also provided additional information on payment of dividends by state-owned companies under question 2.14 of Part 2. Further details are available in China’s answer on the GFSEC internal web-platform.

18. The European Union and its Member States updated their answers to question 2.4 (Facilitating the closure of plants), 2.5 (Maintaining or supporting the domestic production base) and 2.8 (Industry upgrading and innovation). More specifically, they revised their annual budget figures from the European Globalisation Adjustment Fund (EGF) under question 2.4 (from EUR 150 million to EUR 170 million) and specified that the EGF can also be used if a large number of workers are laid off in a particular sector in one or two neighbouring regions. Additional information was also provided under question 2.5. In particular, the European Union reported a measure taken by the United Kingdom to avoid undermining a steel company’s ability to meet its legal obligations due to institutional changes. The European Union also revised the annual budget figures from the Research Fund for Coal and Steel under question 2.8 (from EUR 50 million to EUR 40 million).

19. India updated its answer to question 2.5 (Maintaining or supporting the domestic production base) by removing previously reported trade-related measures that are applied to fairly-traded imports in the economy.

20. Indonesia complemented its answer to question 2.2, indicating that the measures associated with safety production, green industry and standards requirements are not set to limit crude steel capacity additions. Further explanations were provided by Indonesia under question 2.3 dealing with the objective to build new crude steel capacity in the medium to longer term (5-15 years). It was indicated that 25 mmt of crude steel capacity is set to be achieved in the National Master Plan of Industrial Development for the period 2015-2035. Also Saudi Arabia revised its answer to Question 2.3 providing further explanations referring to Kingdom's Vision 2030 document.

21. Japan updated its answer to question 2.8 of the questionnaire (Industry upgrading and innovation) by providing further information on government support for R&D in 2018 and 2019. An additional comment was also provided under question 2.17 (Views on possible effective steps to address challenges related to steel excess capacity and to encourage adjustment) noting that in view of the current status of the global steel industry, the work of the Global Forum should continue beyond its current duration.

22. Russia indicated two additional measures to ensure compliance of steel-producing facilities with environmental standards under question 2.9a. Russia also updated its answer to question 2.17 and shared its views on possible effective steps to address challenges related to steel excess capacity and to encourage adjustment noting that these steps should be aimed at both reduction and prevention of re-emergence of new excess capacities through implementation of principles and approaches fixed in the Berlin and Paris GFSEC reports. Russia also noted that prolongation of the mandate of the GFSEC is a necessary condition for sustainable future of the global steel industry.

23. South Africa updated its answer under question 2.5 (Maintaining or supporting the domestic production base) regarding the government procurement policies requiring domestic steel content at the central and local level. The updated information was also provided under question 2.11 dealing with the operations of state-owned steel enterprises in the economy. South Africa explained that the restructuring plan of the primary steelmaking facility SCAW has been finalised.
This has resulted in private ownership of the company and the state now holds a minority share through the Industrial Development Corporation.

24. Turkey revised its answer under questions 2.4 (Facilitating the closure of plants), 2.5 (Maintaining or supporting the domestic production base), 2.7 (Corporate restructuring) and 2.8 (Industry upgrading and innovation) and explained that there are no policies or measures in place, which are applicable exclusively to the steel sector. Turkey also revised its answer under question 2.9b (Financial support related to the implementation of measures to ensure compliance of steel-producing facilities with environmental standards) and provided information on support measures for environmental investments in the steel industry. It was noted that such support is available to all industries. Turkey also updated their answer to question 2.16 under which members are invited to provide information on their national strategies or development plans for the steel industry.

Overview of the latest updates to Part 3 of the questionnaire

25. This section provides an overview of policies and measures reported by members in Part 3 of the GFSEC questionnaire for information sharing. This part of the questionnaire addresses the policy recommendations specified in the Berlin Ministerial Report, approved at the GFSEC Ministerial Meeting in Berlin in November 2017. The summary below discusses 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 best practices for steel industry adjustment and experiences on new sources of steel demand that were shared by members.

Framework conditions

Framework conditions and institutional settings, trade and investment policies, and competition law

26. During the previous rounds of information sharing 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 (FDI); and iii) aspects of competition law that ensure that all companies compete on a level playing field, irrespective of ownership, domestically and internationally. During the two rounds of information sharing in 2019, several members (Argentina, Australia, China, Indonesia, Russia and Saudi Arabia) provided updated information under these subsections.

Companies in the steel sector in a state of bankruptcy

27. Several members (China, the European Union, India, Russia and South Africa) have provided information on steel companies that are in a state of bankruptcy in their jurisdictions. During the two rounds of information sharing in 2019, China, the European Union, India and Russia provided updated information.
28. More specifically, China reported three companies in a state of bankruptcy (Table 4). China also provided information on the Notice on Further promoting of Debt Disposal of Zombie Enterprises that was issued in 2018 by the Department of Finance, NDRC, to support the exit of zombie enterprises in the steel industry through bankruptcy. The European Union reported a company in Sweden in bankruptcy as of December 2018 as well as a company in Latvia which is currently undergoing bankruptcy proceedings. Russia provided information on six companies in a state of bankruptcy. India updated its answer by removing three companies from the previously reported list of companies undergoing bankruptcy proceedings (Monnet Ispat, Bhushan Steel and Electrosteel Steels).

Table 4. Companies in the steel sector in a state of bankruptcy reported during the two rounds of information sharing in 2019

<table>
<thead>
<tr>
<th>Member</th>
<th>Reported companies in a state of bankruptcy</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>• Bohai Steel Group Company Limited etc</td>
</tr>
<tr>
<td></td>
<td>• Jiugang Group Yicheng Steel Co., Ltd.</td>
</tr>
<tr>
<td></td>
<td>• Xilin Steel Group Co., Ltd.</td>
</tr>
<tr>
<td>European Union</td>
<td>• Scana Steel Björneborg AB</td>
</tr>
<tr>
<td></td>
<td>• Liepajas Metalurgs</td>
</tr>
<tr>
<td>India</td>
<td>• Essar Steel</td>
</tr>
<tr>
<td></td>
<td>• Bhushan Power &amp; Steel</td>
</tr>
<tr>
<td></td>
<td>• Visa Steel</td>
</tr>
<tr>
<td>Russia</td>
<td>• Gurjevsky metallurgy plant</td>
</tr>
<tr>
<td></td>
<td>• Krasny Octyabr plant</td>
</tr>
<tr>
<td></td>
<td>• StavStal, Stavropol region</td>
</tr>
<tr>
<td></td>
<td>• Volga-Fest, Frolovo, Volgograd region</td>
</tr>
<tr>
<td></td>
<td>• Zlatoust Metallurgical Works, Chelyabinsk region</td>
</tr>
<tr>
<td></td>
<td>• Metallurgical plant &quot;Kamastal&quot;, Perm</td>
</tr>
</tbody>
</table>

Financial market regulations in place to address non-performing loans (NPLs)

29. All members provided information on financial market regulations and practices in place to address non-performing loans. During the two rounds of information sharing in 2019, five members (China, Indonesia, Mexico, Russia and Turkey) provided updated information on relevant practices in their economies. China, complemented its earlier response with information concerning Document N 118 Financial Support for Steel and Coal Industry to Resolve Overcapacity and Achieve Turnaround in Development, which guides financial institutions on processes relating to corporate debt problems in accordance with market and legal principles.
30. **Indonesia**, **Mexico**, **Russia** and **Turkey** provided further information on their relevant legal frameworks and practices in place. **Indonesia** specified that in order to improve reporting and transparency, the Financial Services Authority of Indonesia has issued a regulation that sets the rules for reporting and requests debtor information. **Mexico** provided information on the Mexican financial regulatory framework with respect to the identification, recognition, valuation and disclosure of the non-performing loans. **Russia** indicated that according to the Federal Law “On banks and banks’ activities” the banks develop and approve internal documents determining their credit policy, as well as accounting policies and approaches for their implementation. **Turkey** further specified the principles of bank lending. **Turkey** complemented its earlier response with further information on the framework in place.

 Labour market regulations, social security and pension systems that support adjustment in a way which does not contribute to excess capacity, while ensuring the sustainability of the social welfare systems

31. All members provided information on relevant regulations and practices in place under the following heading. In the context of the two rounds of information sharing in 2019, **China**, **Indonesia**, **Russia** and **Turkey** provided additional information on relevant measures and practices in place. The majority of members specified that the measures and practices in place are general and applicable to all sectors. A few members provided further details specific to the steel sector.

32. **China** in its updated answer referred to the additional information on the measures for carrying out resettlement of workers that was provided under question 2.4 in Part 2 of the questionnaire (see above). **Indonesia** complemented its earlier answer by providing further information on its social security system. **Russia** in its updated answer specified that the **Labour Code of the Russian Federation** regulates social security and pension systems and that there are no specific provisions for steel workers in case of bankruptcy of any steel plant. **Turkey** noted that there are no labour market regulations, social security and pension systems that support adjustment.

 Ensuring that different levels of government do not have conflicting policy objectives in terms of addressing excess capacity

33. During the previous rounds of information sharing all members provided answers on how different levels of government coordinate their policies. During the two rounds of information sharing in 2019 **Indonesia** and **Russia** updated their answers.

34. **Indonesia** explained that there are no regulations at any levels of government aiming to prevent or resolve excess capacity. **Russia**, in its response, noted that Russian regional or local legal acts cannot contradict the federal laws.

 Procurement rules and legal basis related to the steel sector

35. With respect to procurement rules applicable to the steel sector, the majority of GFSEC members provided the relevant information during the previous rounds of information sharing. **China**, **Indonesia**, **Russia** and **Turkey** provided additional information in the context of the two rounds of information sharing in 2019. **Indonesia** reported Presidential Regulation No 16 2018 concerning Procurement of Government Goods and Services. **Russia** provided information on the Federal laws regulating the procurement by government bodies, regulating competition at procurements as well as procurements of some legal entities with a government share of more than 50 per cent. **China** and **Turkey** indicated that there are no specific procurement rules for the steel industry.
Market distorting subsidies and other support measures by government or government-related entities

Preferential financing inconsistent with market-based conditions

36. All members but two (Canada and the United States) reported that they do not have in place preferential financing inconsistent with market-based conditions during the previous rounds of information sharing. Canada and the United States, however, noted that some measures were not necessarily inconsistent with market-based conditions.

37. During the two rounds of information sharing in 2019, China provided additional explanations with respect to preferential financing and Canada reported a relevant measure in place. In its comment China indicated that the government has not provided preferential financing that does not meet market conditions. China explained that a market-oriented reform on interest rates was conducted and interest rate controls, including on loans and bonds, have been abolished. Financial institutions have become independent market players and they are responsible for their own profits and losses.

38. Canada provided additional information, reporting that, in March 2019, Innovation, Science and Economic Development Canada had announced a CAD 40 million investment in EVRAZ North America to support a project totalling CAD 112.6 million. Canada explained that the investment will help EVRAZ North America Inc. to make numerous upgrades to its facilities in western Canada and increase its competitiveness in serving the oil country tubular goods market while decreasing emissions and the overall carbon footprint of Canadian steel.
*Equity infusions and conversions (including debt-for-equity swaps) inconsistent with market-based conditions*

39. All 33 members indicated that no such measures are in place in their economies during the previous rounds of information sharing. One member (China) provided updated information under this question during the information sharing of 2019. China explained that after the *Opinions on Actively and Reliably Reducing Leverage Rate of Enterprise* and its annex *Guiding Opinion on Debt-to Equity Conversion of Market-Oriented Banks* were issued in October 2016, debt-to-equity conversion follows market principles.

**Direct transfers**

40. All members but two (China and the United States) indicated that they do not have the relevant measures - grants, awards and cost refunds - in place in their economies. During the previous rounds of information sharing in 2018, China shared information on 24 grants and 55 awards provided at the sub-central level of government. The United States provided information on grants that were provided to Big River Steel by the State of Arkansas.
41. During the two rounds of information sharing in 2019, the United States shared additional information on 10 grants and 15 cost refunds. The United States specified that the reported measures are based on the information contained in the public domain and the United States cannot vouch for the accuracy or completeness of the information provided. The United States also explained that the reported measures correspond to programs that are available to a broad range of industries and these are not specific to the steel sector. The objectives of these measures include encouraging research and development, training workers and ensuring the security of U.S. transportation infrastructure. The United States noted that in view of the value, nature and context of the measures, they cannot be considered as measures that distort the market or lead to changes in crude steel production capacity. The United States added that these measures were listed in the spirit of transparency.

**Tax benefits**

![Updates made during the two rounds of information sharing in 2019](image1)

![Answers to the question: all rounds of information sharing since 2018](image2)

42. Two members (Mexico and the United States) provided updated information under this question during the two rounds of information sharing in 2019. More specifically, Mexico, in its comment, indicated that the tax measures do not provide any fiscal benefit to the steel industry in Mexico and that all tax benefits are reported in the Mexican Tax Expenditure Report.

43. The United States provided information on tax exemptions, tax reductions and tax credits. More specifically, the United States reported four tax exemptions by the State of Louisiana to ArcelorMittal through the Louisiana Industrial Ad Valorem Tax Exemption program (ITEP). This program offers exemption from local property taxes to firms that make a commitment to jobs and payrolls in the state. The United States also provided information on a tax reduction granted to Nucor in 2017 by the State of Tennessee through a program of the Economic Development Growth Engine for Memphis and Shelby County (EDGE). Turning to tax credits, the United States reported 13 measures. More specifically, the United States declared a credit by the State of Ohio to ArcelorMittal in 2014; job training credits by the State of Kentucky to Gerdau in 2016; two credits by the State of North Carolina to Gerdau under the Tax Credits for Growing Business program; credits by the state of Pennsylvania to U.S. Steel under the Research and Development Tax Credit Program; a credit by the state of Kentucky to Gallatin Steel (Nucor) in 2017 under the Kentucky Enterprise Initiative Act; a credit by the State of Colorado to Rocky Mountain Steel Mill (Evraz) that was provided in 2014 under the Enterprise Zone program, which encourages businesses to
locate and develop in economically distressed areas; tax credits by the state of Pennsylvania to the steel company Carpenter that were provided in 2015, 2016 and 2017 as well as a tax credit granted in 2016 to Latrobe Speciality Metals, which is owned by Carpenter.

44. In its comment, the United States reiterated that the listed measures are based on information contained in the public domain and the United States cannot guarantee the accuracy or completeness of this information. It was explained that the reported measures correspond to programs that are available to a broad range of industries and these are not specific to the steel sector. The United States noted that in view of the value, nature and context of the listed measures, they cannot be considered as measures that distort the market or lead to changes in crude steel production capacity. The United States added that these measures were listed in the spirit of transparency.

45. During the previous rounds of information sharing in 2018, three GFSEC members (Australia, China and the United States) provided information on tax benefits in place in their economies. More specifically, Australia reported a payroll tax relief to BlueScope Steel to help secure its Port Kembla operations, China provided information on tax exemptions, tax reductions and tax credits and the United States provided information on tax reductions.

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

46. No member has reported these types of support measures during the previous rounds of information sharing in 2018 as well as during the two rounds of information sharing in 2019.

Provision of goods and services by government and input support

47. No member reported these types of support measures during the two rounds of information sharing in 2019. During the previous rounds of information sharing Canada provided information on a 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 electricity costs reduced provided to the businesses billed at the large power industrial rate (Rate L) that carry out an eligible investment project.
Distortive discretionary policy measures or non-application of market based policy measures

Updates made during the two rounds on information sharing in 2019
Answer to the question: all rounds of information sharing since 2018

48. During the two rounds of information sharing in 2019, no member reported these types of support measures. During the previous rounds of information sharing one member (China) reported a relevant measure in place (export tax rebates). China stated that tax rebates of all steel products are below the 17% value added tax rate, which is in accordance with the WTO rules.

Fostering a level-playing field in the steel sector

49. During the latest and previous rounds of information sharing all GFSEC members indicated that companies in their jurisdictions, irrespective of ownership, are subject to the same rules and regulations. Some members provided further information regarding their legal framework and existing practices. Several GFSEC members (China, the European Union and its Member States, Indonesia, Korea, Mexico, Russia, South Africa and Turkey) provided updated information under this section during the two rounds of information sharing in 2019.

50. In its update during these new rounds of information sharing in 2019, China noted that the Anti-Monopoly Law and its supporting legislation apply to all entities operating in the market and there are no special regulations and policies for specific enterprises. China also added that China’s anti-monopoly execution authorities treat state-owned, private and foreign enterprises in the same manner and enforce the law impartially to ensure fair competition in the market.

51. The European Union updated its response that was provided last year by notifying that the aid to ILVA has now been repaid together with interest in line with the provisions of the European Union law.

52. Indonesia, in its update indicated that in accordance with Law N 40 concerning Limited Liability Companies (Perseroan Terbatas), all companies in Indonesia are subject to the same rules and regulations with respect to transparency, disclosure enforcement, competition and bankruptcy procedures.

53. Korea noted that the Monopoly regulation and Fair Trade Act regulates undue collaborative acts and unfair trade practices in the country. It was also noted that all companies irrespective of ownership, are subject to the same rules and regulations.

54. Mexico, in its updated response, indicated that all companies in the steel market, irrespective of ownership, are subject to the same rules and regulations, including those related to
transparency, disclosure, enforcement, competition and bankruptcy procedures. This is ensured by the existing a legal framework for each area.

55. During the first round of information-sharing, Russia provided further information regarding its legal framework. Turkey noted that it does not have state-owned enterprises and that the same rules apply to all companies in the steel market.

56. In its previous submission, South Africa provided information on one steel company that was technically bankrupt and not compliant with environmental rules. In its 2019 update, South Africa noted that the steel crisis and effects of excess capacity had contributed to the closure of this company.

Fostering industry restructuring by assisting displaced workers

Updates made during the second round on information sharing in 2019

<table>
<thead>
<tr>
<th>Updates</th>
<th>No.</th>
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<tbody>
<tr>
<td>Yes</td>
<td>5</td>
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<tr>
<td>No</td>
<td>23</td>
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Answers to the question: all rounds of information sharing since 2018

<table>
<thead>
<tr>
<th>Updates</th>
<th>No.</th>
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<tbody>
<tr>
<td>Yes</td>
<td>5</td>
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<td>No</td>
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57. During the previous rounds of information sharing, five GFSEC members (Australia, China, the European Union, Japan and the United States) indicated that they have taken employment adjustment measures for addressing the social cost of restructuring. Five GFSEC members (Australia, China, Indonesia, Mexico and Saudi Arabia) provided additional information under this heading during the two rounds of information sharing in 2019. Australia provided further information on the initiatives under the Structural Adjustment Packages, which are provided by the government to assist workers in areas where large-scale closures have impacted the local labour market and where expectations of future employment opportunities are low. China updated its comment by making a reference to the information on measures for carrying out workers’ resettlement, which was provided in its response to Part 2 of the questionnaire. China also noted that since 2016, 293 000 steel workers have been resettled in the context of the capacity reduction process in the steel industry.

58. Indonesia provided information on the Participants’ Welfare Improvement and the Partnership and Community Development Programs that were implemented by the government as a part of the Road Map on the implementation of Social Security in Employment Sector for the period from 2014 to 2019. Mexico complemented its earlier response by providing the latest employment figures in the steel sector. Further information is available regarding members’ answers on the GFSEC internal web-platform. Saudi Arabia complemented its previous answer by specifying that no relevant measures have been taken specifically for the steel industry in the period 2014-June 2019.
**Government targets**

59. Under this heading, members were asked to provide information on any specific targets for reducing crude steel capacity, limitations set on crude steel capacity additions and any targets for increasing crude steel capacity.

**Targets for reducing crude steel capacity set by governments**

60. During the previous rounds of information sharing one member (China) provided information on specific targets for reducing crude steelmaking capacity in 2016, 2017 and 2018 (by 45 mmt, 50 mmt and 30 mmt, respectively). In the context of the new rounds of information sharing in 2019, China noted that in accordance with the basic principles proposed by the *Opinions on Resolving Overcapacity and Difficulties in Steel Industry*, the capacity reduction in the Chinese steel sector always adhered to the market-oriented principles and the rule of law through the implementation of laws, regulations and industrial policies on environmental protection, energy conservation, quality and safety. China also provided information on the relevant provisions under the Environmental Protection Law. China noted that in accordance with the Law, the government can take measures when an enterprise exceeds their emission standards or their total emission quota for key pollutants. These measures include the restriction or suspension of production and the closure or shut down of production facilities in cases of severe violations. Further details are available in China’s answer on the GFSEC internal web-platform.

**Objectives set by the government to build crude steel capacity in the medium to longer term**

61. In the context of the new rounds of information sharing in 2019, Indonesia gave additional information regarding the government objectives to build crude steel capacity that was provided during the previous rounds of information sharing. Referring to the National Master Plan of Industrial Development 2015-2035, Indonesia provided information on a 25 mmt target for the period 2015-2035.

62. Saudi Arabia, in its updated comment noted that it is in the process of studying the requirements for its Vision 2030 document to assess demand from the mining sectors. It was added that the projects are expected to be approved based on their value added to GDP, taking into account their comparative advantage and regardless the origins of supplies (national or foreign).

**Issues related to mergers and acquisitions**

63. The majority of GFSEC members (Australia, Brazil, Canada, China, the European Union and its Member States, India, Japan, Mexico, Russia, South Africa and the United States) indicated that mergers and acquisitions (M&As) had taken place in their steel sectors during the period covered by the exercise. In the context of the two rounds of information sharing, several GFSEC members (Brazil, China, the European Union and its Member States, India, Japan, Mexico, Russia and the United States) provided information on M&As that had recently taken place in their steel sectors (Table 5).

64. More specifically, in the context of these new rounds of information sharing in 2019, Brazil reported the acquisition of ArcelorMittal Aços Longos Cariacica by Gv do Brasil/SIMEC. China provided information on five transactions that had taken place in 2018. The European Union provided updated information on the acquisition of ILVA by ArcelorMittal and on a planned joint venture between Thyssenkrupp (Germany) and Tata Steel (UK/Netherlands). As for the latter, the European Union informed that on 11 June 2019 the European Commission declared the proposed joint venture incompatible with the internal market.
65.  *India* reported three new transactions and removed from its response one transaction that was reported earlier (VSL Steels Ltd & Kirloskar Ferrous Industries Ltd.)  *Japan* reported the acquisition of the majority shares of Sanyo Special Steel Co., Ltd. by Nippon Steel Corporation as well as the acquisition of Asahi Industries Co., Ltd. by Godo Steel, Ltd. Japan also provided an update regarding the acquisition of Nisshin Steel by Nippon Steel Corporation that was reported earlier. Japan explained that after Nippon Steel Corporation acquired a majority share of Nisshin Steel Co. Ltd in March 2017, Nisshin Steel became a wholly-owned subsidiary of the Nippon Steel Corporation in January 2019.

66.  *Mexico* noted that in the period there was only one transaction reviewed by COFECE. This was an acquisition by a private investment fund for 19% of the shares of Altos Hornos de México (AHMSA).  *Russia* provided information on two transactions that took place in 2017.

67.  The *United States* reported the acquisition of Acero Junction by JSW Steel and the acquisition of Keystone by Liberty Steel. The United States also reported the announced acquisition by Tenaris of TMK IPSCO, the crude steelmaking facilities of which are located in the United States It was noted that according to the public announcement the transaction was subject to regulatory approvals, including approval by the U.S. antitrust authorities.

<table>
<thead>
<tr>
<th>Member</th>
<th>Reported M&amp;A transactions</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>• ArcelorMittal Açôs Longos Caracica Plant acquisition by Gv do Brasil/SIMEC</td>
</tr>
<tr>
<td>China</td>
<td>• Nippon Steel &amp; Sumikin Bussan Corporation, Mitsui &amp; Co., Ltd. and Mitsui &amp; Co. Steel Ltd. steel-related business</td>
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<tr>
<td></td>
<td>• Mitsui &amp; Co., Ltd. acquired equity of Nippon Steel &amp; Sumikin Bussan Corporation</td>
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<tr>
<td></td>
<td>• Sumitomo Corporation acquired equity of Hiroshima Steel Center Co., Ltd.</td>
</tr>
<tr>
<td></td>
<td>• Nippon Steel &amp; Sumikin Metal Corporation acquired equity of Sanyo Special Steel Co., Ltd.</td>
</tr>
<tr>
<td></td>
<td>• Nippon Steel &amp; Sumikin Bussan Corporation acquired equity of Nihon Teppan Co., Ltd.</td>
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<tr>
<td>India</td>
<td>• Electrosteel Steels (Vedanta)</td>
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<td></td>
<td>• Bhushan Steel with Tata Steel</td>
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<tr>
<td></td>
<td>• Monnet Ispat with JSW</td>
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<tr>
<td>Japan</td>
<td>• Acquisition of Nisshin Steel by Nippon Steel Corporation</td>
</tr>
<tr>
<td></td>
<td>• Acquisition of Sanyo Special Steel Co by Nippon Steel Corporation</td>
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<tr>
<td></td>
<td>• Acquisition of Asahi industries Co., by Godo Steel, Ltd.</td>
</tr>
<tr>
<td>Mexico</td>
<td>• Acquisition of the shares of the company Altos Hornos de México (AHMSA) by a private investment fund</td>
</tr>
<tr>
<td>Russia</td>
<td>• Acquisition of LMK Group by JSC MMK</td>
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<tr>
<td></td>
<td>• Acquisition of Amurmetall by TOREX group</td>
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<tr>
<td>United States</td>
<td>• JSW Steel acquired Acero Junction</td>
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<tr>
<td></td>
<td>• Liberty Steel acquired Keystone</td>
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<tr>
<td></td>
<td>• Acquisition of TMK IPSCO by Tenaris</td>
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</table>

68.  *China* also updated its response to the question on how M&A processes in the steel sector facilitate financial restructuring, the modernisation of the most productive operations, and the financing the closure of inefficient steel units in the economy. China noted that Baosteel Group Co., Ltd and Wuhan Iron and Steel (Group) Company conducted joint reorganization, which resulted in the reduction of a large number of Baowu Steel’s subsidiaries as well as capacity reductions. Further information is available in China’s response on the GFSEC internal platform.  *Indonesia* provided information on the legal framework in place.
Ensuring export credits do not contribute to excess capacity

69. No member provided additional information on export credits for goods and services associated with crude steelmaking projects during the two rounds of information sharing in 2019. China in its updated comment reiterated that it does not provide export credits to crude steel projects. Indonesia noted that the government does not provide officially supported export credits for goods and services associated with crude steelmaking projects. Indonesia further added that the generic financing facilities related to exports provided by government may include access to funding, guarantees and/or insurance for export of goods and services, which fulfil the relevant criteria of contribution for strengthen domestic foreign exchange.

70. During the previous rounds of information sharing, several other GFSEC members (Argentina, Australia, Brazil, Canada, India, Korea, Mexico, Norway, Russia, Saudi Arabia, South Africa, Switzerland, Turkey and the United States) indicated that they do not provide export credits.

71. Japan shared with all members information on two programmes (Export Credit and Buyer's Credit) that were in place in the period 2014-2016 under the relevant question in Part 2 of the questionnaire. Japan also informed the Facilitator that no export credits were provided in 2017. The European Union has provided information to the Facilitator about export credits by project for 2014-2017.

Steps to eliminate market-distorting subsidies and other types of support, best practices for steel industry adjustment, and new sources of steel demand

Steps to eliminate market-distorting subsidies and other types of support

72. Members did not answer in the affirmative to this question, with many providing explanations about why this is the case. Additional explanations were provided by Korea, Mexico, Russia and Turkey in the context of the new rounds of information sharing in 2019.

Best practices for steel industry adjustment

73. During the first round of information sharing in 2019, Indonesia shared its views on best practices for adjustment in the steel industry. In the context of the previous rounds of information sharing Australia, Brazil, Canada, China, India, Japan, Norway, Russia, Saudi Arabia, South Africa, Turkey and the United States also provided relevant information. Their full answers are available on the GFSEC internal platform. As was indicated above, Russia and Japan provided additional comments on possible effective steps to address challenges related to steel excess capacity and to encourage adjustment under the relevant question in Part 2 of the questionnaire during the second round of information sharing.

Members’ experiences on new sources of steel demand

74. During the two rounds of information sharing in 2019, China provided additional information on the measures to expand domestic demand. Russia noted that it is developing a number of infrastructure projects aimed to increase steel consumption. During the previous rounds of information sharing, several members (Australia, Canada, India, Indonesia, Japan, Russia, Saudi Arabia, South Africa and Turkey) also shared their experiences on new sources of steel demand. Members are invited to review the full answers provided on the GFSEC internal platform.
Outcomes of the review process on subsidies and other types of support by government and government-related entities

75. The GFSEC review process, which was established in 2018 pursuant to principle VI of the Berlin Ministerial Report, allows 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. This section provides an overview of the issues that were raised by GFSEC members during the new rounds of the review process that took place between December 2018 and September 2019.

Preferential financing inconsistent with market-based conditions

76. Several members posed questions to Canada, China, the European Union, India, Indonesia and the United States with respect to preferential financing.

77. More specifically, questions were posed to Canada regarding preferential loans provided to its steel companies. These questions were based on the information submitted by Canada in the context of the GFSEC information sharing exercise and Canada was invited to provide detailed explanations on why the relevant measures in place are not market-distorting and do not contribute to excess capacity. Canada explained that in one case, the company received a contribution from the Federal Economic Development Agency for Southern Ontario and from the Strategic Innovation Fund to allow the firm to make investments in innovation and to undertake non-capacity-increasing capital expenditure. The Province of Ontario also provided support for this project. Canada was also asked to explain why a loan was granted to a company that is under creditor protection. Canada explained that in November 2018, the company in question exited Companies’ Creditors Arrangement Act protection and has been acquired by private firms, which indicates that the market views the firm as viable.

78. Commenting on another loan provided, Canada explained that this support was dispersed through the Government of Ontario’s Jobs and Prosperity Fund, which provides funding to a diverse range of sectors and does not target the steel industry specifically. With respect to other funding provided by federal and provincial governments, Canada explained that this support cannot be considered to be market distorting given the sector-agnostic and competitive nature of the relevant funding programs. The evidence at hand and the balance of collective exchanges suggests that these measures would not fall under paragraph 57 of the Berlin Ministerial report.

79. During the latest round of the review process, members continued discussions with China on preferential financing practices that were questioned by several members in 2018 and which were indicated as remaining under ongoing discussion in the Paris Ministerial report. The questions posed to China with respect to preferential financing and debt relief were based on the specific examples of the relevant support measures in place. China was invited to provide additional input and explanations on the alleged measures.

80. China noted that the government does not provide preferential financing which distorts the market or contributes to excess capacity, and made reference to the answers it had provided earlier to the relevant questions. 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

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2 Loans provided to Algoma, ArcelorMittal Dofasco, Ivaco Rolling Mills and Stelco were discussed.

3 The specific cases indicated by members involved the following companies in China: Baogang; Benxi Group; Chongqing Iron and Steel; Hestee Group; Inner Mongolia Baotou Steel Union Co., Ltd.; Jiangsu Shagang Group; Lingyuan Iron and Steel Group; Shougang Group; Wuhan Iron and Steel Group; Xinxing Ductile Iron Pipes Co.
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. China also noted that the government does not provide preferential financing which distort the market or contribute to excess capacity.

81. GFSEC members posed further questions to China asking to provide detailed and evidence-based explanations about the specific cases of preferential financing provided to loss-making companies that were raised by members during the review and which were supported by concrete figures indicating such support. In this context, referring to China’s Iron & Steel industry Adjustment and Upgrade Plan, which provides for the removal of companies which have recorded continuous losses, members noted that the presented evidence suggests that the companies managed to maintain operations by receiving government support. It was therefore noted that these measures can be classified as market distorting and contributing to excess capacity. China explained that the proportion of subsidies in the operating income of the specific company in question was low and therefore it cannot be said that the support provided allowed that company to maintain its operations. China also noted that the company stopped making losses and began making profits after bankruptcy and reorganization.

82. Members also posed questions to China about recent cases of lending provided by state-owned banks to indebted steel companies allowing them to maintain production. Responding to the question raised, China noted that there is no intervention by government or government-related entities to maintain production of the companies.

83. In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.

84. Members of the Global Forum also raised questions about loans provided to a steelmaker by the Italian government. The European Union explained that the European Commission investigated the support provided by Italy and found that some of the support provided was not in line with market conditions. Consequently, the aid that was provided is now in the process of being repaid in accordance with the provisions of the law, plus interest.

85. Members posed follow up questions to the European Union and asked it to explain why the preferential financing provided by the Italian authorities was not reported to the Global Forum given that the support measures in question were found by the European Commission as not being in line with market principles. Members also asked the European Union to explain the policy basis that allows the provision of such preferential loans and when such a policy basis will be eliminated. Responding to the questions raised, the European Union made reference to Annex 3 of the Paris Ministerial report, which concludes that the measure in question is not under paragraph 57 of the Berlin Ministerial report because the EU has reduced its capacity in the past two decades and thus has not contributed to overcapacity. The European Union also noted that the loans in question were ad hoc measures and decisions that were taken did not result from any pre-existing legal basis setting an obligation for the Members State to provide such support in similar cases. The evidence at hand and the balance of collective exchanges suggests that the measure discussed would not fall under paragraph 57 of the Berlin Ministerial report.

86. Members also asked India if its government provides preferential financing to steelmakers for building new steel plants. India explained that the government does not interfere in the
commercial decisions of companies and does not provide any subsidies or support measures to steel companies.

87. Questions were posed by members to Indonesia whether there were changes of the requirements on the syndicate loans provided by the state banks to its steel company. Indonesia explained that the implementation of loan requirements was based on market conditions in accordance with the existing regulations.

88. Preferential loans and bond guarantees provided to companies by U.S. state authorities were also questioned and discussed during the review process. In response, the United States explained that in one case, the company repaid the loan from the state of Arkansas well ahead of time and with financing raised in the private commercial market. With respect to another case, the United States explained that the nature and purpose of the financing arrangements in question, which were concluded two decades ago, have no market-distorting impact and do not cause excess capacity. Regarding a third case, the United States specified that the company does not produce steel, but rather it manufactures forgings for transportation and energy applications. As such, any measures relating to this company are not pertinent to U.S. crude steelmaking capacity. The evidence at hand and the balance of collective exchanges suggests that the U.S. measures discussed would not fall under paragraph 57 of the Berlin Ministerial report.

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

89. In 2018, 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. These measures were indicated as remaining under discussion in the Paris Ministerial report. China was invited to provide additional input and explanations on the alleged measures.

90. In the context of the latest round of information sharing in early 2019, China indicated that the debt-to-equity swaps in China in 2014-2017 are market-oriented and legal. China also noted that the banks and enterprises negotiate independently, giving to the market a decisive role in resource allocation. The targeted enterprises and price of debt-to-equity swaps are market-oriented and equity exits are also market-oriented. In its previous answers China also 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 that it is prohibited to implement debt-to-equity swaps for four types of enterprises including non-viable enterprises, enterprises that maliciously evaded debts, enterprises that have complicated and unclear creditor-debtor relationships, and enterprises that have the potential to aggravate overcapacity.

91. Members noted that the answers provided by China do not address the specific questions on the measures identified in the Chinese companies’ annual reports, but only explain the official Chinese government policy regarding the measures in question. In view of this, members reiterated their request for China to provide information on the specific examples of equity infusions, which

4 Questions cited AK Steel, Big River Steel and Southwest Steel Processing LLC.

5 The details were provided on equity infusions to Ansteel Group Co., Ltd.; Hesteeel Group Co., Ltd.; Wuhan Iron and Steel Group and 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. 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; Hesteele 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.
were identified in the annual reports of certain large Chinese steelmaking enterprises. China was also asked to explain which tangible and swift actions have been taken to eliminate such measures insofar as they contribute to excess capacity. Responding to the questions raised, China noted that it has not provided support measures to steel companies which distort the market or contribute to excess capacity. China also explained that it has found inconsistencies in the information from the annual reports provided by members and information China has received through formal channels. In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.

Grants, awards and cost refunds

92. Support measures in the form of grants, awards and cost refunds were also discussed during the review process and the questions on these measures were posed to Australia, Canada, China, the European Union, Japan and the United States.

93. Australia was asked to provide details on the Structural Adjustment Program which was used to provide support to retrenched workers and to explain whether the support provided was market-distorting and contributed to excess capacity. Australia explained that this support measure cannot be considered as market-distorting and contributing to excess capacity because it is provided directly to retrenched workers and no funding is provided to steel companies. The evidence at hand and the balance of collective exchanges suggests that this measure would not fall under paragraph 57 of the Berlin Ministerial report.

94. Some members posed questions to Canada regarding grants provided to two companies.6. Commenting on the grant provided in one case, Canada noted that it was dispersed through the Government of Ontario’s Jobs and Prosperity Fund which provides funding to a diverse range of sectors and does not target specifically the steel industry. Regarding the grant that was provided in another case, Canada explained that the support was provided to the company for its modernisation project. The evidence at hand and the balance of collective exchanges suggests that the measures discussed would not fall under paragraph 57 of the Berlin Ministerial report.

95. In 2018, several Global Forum members provided evidence (based on information from the annual reports) on grants and awards given to selected steel companies in China.7 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, relocation compensation and deferred income. China was invited to provide additional input and explanations on the alleged measures. In June and October 2018, China shared information on 24 grants and 55 awards provided at the sub-central government level. China explained that the reported measures are granted either for carrying out the central governments capacity reduction plans or for carrying out environmental protection and energy conservation projects and that these measures are neither market-distorting nor contributing to excess capacity. China also noted in its responses to members’ questions that the government does not provide grants which distort markets or contribute to excess

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6 Algoma Steel Inc. and ArcelorMittal Dofasco were noted.

7 The following Chinese companies were listed: 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. There were also mentioned 398 unspecified cases.
capacity. GFSEC members posed follow up questions on the grants that were identified in members’ submissions in 2018 and also on the grants and awards that were self-reported by China in 2018. For instance, members questioned whether grants provided for environmental purposes might prevent enterprises from reducing capacity or being shut down as in the absence of such support, firms might not be able to meet pollution-related and other environmental standards. China explained that the government required local environmental protection agencies to examine all steel enterprises and investigate their compliance with environmental regulations. The enterprises that fail to meet environmental standards will be required to reduce production, pay fines or shut down. In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.

96. In the context of the latest round of the review process GFSEC members also asked China to provide details on awards and financial support provided by the local governments to the steel companies that have achieved ultra-low emissions in line with the Opinions on Promoting the Implementation of Ultra-low Emissions in the steel industry (Document No35). China explained that the support measures proposed by the Opinions for steel enterprises implementing ultra-low emission are consistent with the current laws and policy documents and are not specific to the steel industry. China further explained that according to the Opinions local governments can reward the steel enterprises that have completed the ultra-low emission transformation according to the actual situation. China noted that in order to encourage enterprises to implement deep pollution control and improve environmental quality, many localities have incentives under the local environmental protection funds to reward projects with important emission reduction effects of major atmospheric pollutants.

97. The European Union was asked to provide explanations about the support it provided for research and development, grants provided by the Polish government to the steel industry and compensation to energy intensive industries provided by the United Kingdom. In response, the European Union noted that the indicated measures do not distort the steel market by contributing to excess capacity. The European Union further added that the EU State aid rules prohibit the provision of any aid to steel producers for investments into capacity and also prohibits the granting of operating aid to steel companies in financial difficulties. The EU also explained that its rules allow only certain aid to promote specific objectives of common interest, such as R&D&I and environmental protection, but under very restrictive conditions. The European Union compensates energy intensive industries for the additional costs incurred by them, as a result of environmental goals set by the jurisdictions. The evidence at hand and the balance of collective exchanges suggests that the measures in question would not fall under paragraph 57 of the Berlin Ministerial report. The European Union was also asked about the financial package reported in the media that was created by the UK government to support a steel company. The European Union and the United Kingdom declared that such a financial package was not created to support the steel company in question.

98. Japan was asked to clarify the content of its employment adjustment assistance and to provide details of research and development support to steelmakers. With respect to employment adjustment assistance, Japan provided information on one case of such assistance that was provided to the steel company in 2017. Japan also noted that the measure in question is applicable across a wide range of industries and is not specific to the steel sector. Commenting on its research and development support to steelmakers, Japan explained that support to four steelmakers had been provided from 2014 to 2017 for the R&D project, which aims to reduce energy consumption and
CO2 emissions. The evidence at hand and the balance of collective exchanges suggests that the measures in question would not fall under paragraph 57 of the Berlin Ministerial report.

99. The United States was invited to comment on the provision of grants to several companies and to explain the possible impact of these measures on the steel companies’ capacity expansions.\(^9\) With respect to one company, the United States explained that it is a subsidiary of a foreign company and there is no information on grants provided by the United States in the parent company’s annual reports for 2017-2018, nor in the annual report for 2015-2016. The United States also explained that in another case, the company was offered a Texas Enterprise Fund (TEF) grant of less than 1% of the project costs, which would not affect the company’s decision on whether or not to make an investment in the United States. With respect to the support provided to two other companies, the United States explained that neither of these companies engage in crude steelmaking in the United States. In view of this, any measures relating to these companies are not pertinent for U.S. crude steelmaking capacity.

100. The United States was also asked to explain different kinds of support measures including grants provided by the federal and state governments that were indicated in members’ submissions based on publically available information. Members also invited the United States to explain whether these measures distort the market and contribute to excess capacity. The United States noted that to the extent the information provided by members is accurate, one third of the support measures that were pointed out by members were provided to companies that do not engage in crude steelmaking in the United States. The United States also explained that the context, nature, confined purpose, and limited value of the measures listed are such that they would not have created market distortions nor contributed to excess capacity. The United States also noted that it examined all the measures listed and updated its submission in the context of the GFSEC information sharing by providing information on the relevant measures. It was also noted that the United States will continue to report any measures that pertain to its crude steelmaking enterprises.

101. The evidence at hand and the balance of collective exchanges suggests that the measures discussed would not fall under paragraph 57 of the Berlin Ministerial report.

102. In the context of the latest round of the review process in 2019, the United States was also asked to comment on federal funding provided to three steel companies.\(^10\) The United States explained that four projects were awarded a funding totalling USD 1.2 million in March 2019 under the U.S. Department of Energy’s High Performance Computing for Manufacturing Program (HPC). These projects concern research and development into the use of supercomputers to improve the manufacturing process. Only three of these projects relate to steel and the Department of Energy will provide USD 300 000 to each of these projects. The United States specified that the funds will be provided not to the three steel companies, but to Lawrence Livermore National Laboratory (LLNL) and according to the terms of the program the industry has to make a contribution of at least 20% of project costs. The United States noted that this indicates that the U.S. steel producers are contributing to, rather that receiving, funding for these projects.

Tax exemptions, reductions, and credits

103. GFSEC members raised questions regarding tax incentives in Australia, Canada, China, the European Union, Indonesia, India, Mexico and the United States.

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\(^9\) Questions noted Flexsteel Pipeline Technologies, North Star BlueScope, JSW and Tenaris.

\(^10\) The companies noted were U.S. Steel Corporation, AK Steel Corp. and ArcelorMittal USA.
104. Australia was invited to respond to questions regarding the payroll tax relief provided to a steelmaker by the New South Wales State government. More specifically, Australia was asked to provide detailed explanations on why this measure is not market-distorting and does not contribute to excess capacity. Australia explained that the measure in question is a one-off tax relief measure that temporarily deferred but did not waive payroll tax liabilities for the steel company. The evidence at hand and the balance of collective exchanges suggests that the measure discussed would not fall under paragraph 57 of the Berlin Ministerial report.

105. Canada was asked to provide explanations about its corporation income tax rebate for capital investment in primary steel production as well as the measures taken to ensure that this program will not lead to capacity expansion. Canada explained that the tax incentive for each year of a five-year rebate period was designed to be based on the incremental Saskatchewan Corporation Income Tax, payable by the corporation as a result of a new investment. It was also noted that there that none of the mills that benefited increased their capacity within the reporting timeframe. The evidence at hand and the balance of collective exchanges suggests that the measure discussed would not fall under paragraph 57 of the Berlin Ministerial report.

106. In 2018, various tax benefits in the form of tax exemptions or reductions, tax rebates, tax refunds and taxable income write offs in China were pointed out by members during the review process.\(^{11}\) China was asked to provide additional information and explanations on the indicated support measures. China explained 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. With respect to different types of tax incentives provided to the steel companies in China that were indicated by members during the review, China explained that these programs are not specific to steel enterprises and are available to enterprises in other industries. The purpose of such programs is to encourage enterprises to increase the efficiency of resource utilisation, rather than to encourage companies to expand production capacity. With respect to tax rebates, China also provided information on the support received by three companies in 2015 and 2016 and on tax subsidies provided to another company in 2016. China explained that considering the amount of the reported support to these companies, the income tax return accounted for a very small proportion of their operating income for the year and even if the subsidy was received, its proportion indicates that it cannot affect the competitiveness of the enterprise and cannot lead to excess capacity.

107. In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.

In the context of the latest round of the review process, China was also asked to comment on tax credits provided by the local governments to the steel companies that have achieved ultra-low emissions in line with the *Opinions on Promoting the Implementation of Ultra-low Emissions in the steel industry (Document No35)*. China explained that according to the Opinions, the steel enterprises that meet the ultra-low emission requirements can benefit from the preferential taxation. More specifically, if the emission concentration of taxable atmospheric pollutants is 30% less than the pollutant discharge standard, the environmental protection tax shall be reduced by 25%; if the emission concentration is 50% less, the standard tax shall be reduced by 50%. China also noted that preferential tax credits are available for the enterprises purchasing environmental protection

\(^{11}\) For tax exemptions, the companies listed are Shougang Group; Baosteel Group; Wuhan Iron and Steel Group, Shandong Steel Group; Xinxing Ductile Iron Pipes; Shagang Group; Fangda Special Steel; Hesteel Group. For tax rebates, the companies listed are Shougang Group; Inner Mongolia Baotou Steel Union and 25 unspecified cases. For tax refund, the company listed is Xinxing Ductile Iron Pipes.
equipment. China also specified that the Opinions does not differentiate between steel and other industries and therefore does not provide special preferential treatment to the steel industry.

108. The European Union was asked to comment on tax rebates applicable to Special Economic Zones in Poland and how this policy does not distort markets and contribute to excess capacity. Responding to the question, 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. The European Union reiterated that the EU State aid rules prohibit the granting of any aid to steel producers for investments into capacity and also prohibits the granting of operating aid to steel companies in financial difficulties. The evidence at hand and the balance of collective exchanges suggests that these measures would not fall under paragraph 57 of the Berlin Ministerial report.

109. India was invited to explain if the government provides preferential taxes to steelmakers that can contribute to their planned capacity increases. India explained that the government does not interfere in the commercial decisions of companies and does not provide any subsidies or support measures to steel companies.

110. In 2018, some members posed questions to Indonesia about tax allowances and tax holidays that were introduced under economic stimulus packages in order to attract investments to Indonesia. These measures were indicated as remaining under discussion in the Paris Ministerial report. There have been no further exchanges on the alleged measures since then. The evidence at hand and the balance of collective exchanges suggests that the measures identified and discussed remain under discussion.

111. Mexico was asked to comment on support relating to temporary imports. Mexico explained that the program in question (IMMEX program) is not a support program, but a mechanism that only defers the payment of taxes as an administrative facility. The evidence at hand and the balance of collective exchanges suggests that the program discussed would not fall under paragraph 57 of the Berlin Ministerial report.

112. The United States was asked to comment on tax credits, tax exemptions and tax reductions granted to various companies. With respect to the tax credits provided to two steelmakers, the United States explained that its tax code permits a variety of general business tax credits that correspond to a particular types of business expenditure and are available to all taxpayers. The total tax credits that can be used by a business are limited by the tax code and the unused credits can be carried forward to subsequent tax years.

113. Responding to a question about the tax credit granted to a company by the State of North Carolina and its potential impact on steel production capacity, the United States explained that this tax credit entailed a business property investment and had no impact on the steelmaking capacity of the company in question. Commenting on tax credits received by another company from the state of Colorado, the United States noted that this measure was reported by the United States in the context of the GFSEC information sharing. It was further explained that this credit was provided under the Enterprise Zone program, which allows businesses to earn a credit on their Colorado income tax up to a fixed percentage of equipment purchases, and noted that the support measure in question had no impact on the relevant facility’s steelmaking capacity.

114. Commenting on the tax exemptions made by the State of Louisiana, the United States explained that these related to capital investments by a steelmaker at a facility which produces...
finished (long) products, but has no crude steelmaking capacity. With respect to tax reductions granted by the state of Tennessee, the United States explained that this tax reduction related to the creation of new jobs associated with an investment in a new building to house value-added finishing activities. This investment, however, does not impact the steelmaker’s crude steelmaking capacity.

115. The evidence at hand and the balance of collective exchanges suggests that the measures discussed would not fall under paragraph 57 of the Berlin Ministerial report.

116. Responding to a question about tax incentives granted to Steel Dynamics Inc. to build a flat-rolled mill in Texas, the United States explained that the company decided to locate the new plant in Southern Texas in view of its proximity to targeted customer regions, logistics benefits, available acreage, proximity to raw materials, and attractive infrastructure. The company has not identified any incentives with its site selection although any such incentives would not have informed the company’s decision to build the mill in the first place, which preceded site selection by several months.

Provision of goods and services by government and input support

117. A detailed discussion on input support provided at preferential terms to steel producers in some GFSEC economies also took place at the GFSEC meetings. More specifically, members posed questions to Canada, China, the European Union, India and Indonesia regarding the relevant measures.

118. Canada was asked to comment on the preferential provision of energy to a steelmaker, a measure that was self-reported by Canada in the context of the GFSEC information sharing. Members also asked Canada to explain whether this measure has an impact on capacity additions. Canada explained that in line with the program of the Government Québec aimed at promoting investments by businesses in the manufacturing and natural resource processing sectors, businesses billed at the large power industrial rate that carry out one or more eligible investment projects are eligible to receive reduced electricity costs. Canada further explained that the company in question announced an investment for its facilities that focuses on improving product quality through modernization activities and environmental upgrades, and there is no requirement that the investment lead to increased or new capacity. The evidence at hand and the balance of collective exchanges suggests that the measure discussed would not fall under paragraph 57 of the Berlin Ministerial report.

119. In 2018, GFSEC members questioned the preferential provision of steelmaking raw materials, electricity and land-use rights at discounted prices or for free to steel companies in China. China was asked to provide additional information and explanations on the indicated support measures. China explained that the enterprises that supply raw materials to steel companies are not governments or public bodies and therefore the measures alleged by members do not constitute a subsidy. China also noted that the prices of steelmaking raw materials are determined by the market and not by the government, and that there is no dual pricing. Members posed follow-up questions to China, asking it to provide details on export restrictions on certain steelmaking raw materials that are in place and on preferential electricity prices. Responding to questions related to export restrictions on certain steelmaking raw materials, China explained that it has implemented

13 Companies noted included, inter alia, Anyang Steel; Baogang Group; Benxi Group; Fangda Special Steel; Handong Steel Group; Hesteel Group; Shougang Group; Lingyuan Iron and Steel Group; Jiangsu Shagang Group; Shougang Group; Xinxing Ductile Iron Pipes.
measures on the production, consumption, and exportation of a very small portion of raw materials in order to protect natural resources and ecological environments. China also indicated that it implemented export quota management and imposes 3% export tariffs on coal. China also noted that these measures are in line with the WTO provisions. Members also pointed to the effects of the specific combination of export quotas, duties, licensing requirements, taxes and VAT rebates, reductions in the prices of certain inputs which create an artificial separation of the Chinese market from the international market, and provide support by artificially depressing certain input prices. China was asked to provide comprehensive information on each of these elements and their impact. China explained that its trading measures are in line with WTO rules and market principles. In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.

120. Responding to the question about support in the form of preferential electricity prices provided to steel companies by the local governments, China explained that according to the Opinions on Promoting the Implementation of Ultra-low Emissions in the Steel Industry, the provincial government can implement the price increase policy based on the current catalogue sales price or transaction price to the steel enterprises that have not completed the ultra-low emission transformation. China noted that conditioned areas should study and establish differentiated electricity pricing policies based on the pollutant emission performance of steel enterprises to promote ultra-low emission transformation of steel enterprises.

121. Members asked the European Union to explain whether its greenhouse gas emission allowance trade system benefit steel companies in the EU. Responding to the question posed, the European Union provided details on the greenhouse gas emission allowance trade system and explained that it imposes considerable regulatory costs on the industries covered by it, including the steel industry. The European Union further explained that these additional regulatory costs are unique to the EU steel producers and are not present in other jurisdictions. The evidence at hand and the balance of collective exchanges suggests that the measure discussed would not fall under paragraph 57 of the Berlin Ministerial report.

122. India was asked to comment on whether the government provides land at a lower cost to steelmakers. India explained that the government does not interfere in the commercial decisions of companies and does not provide any subsidies or support measures to steel companies.

123. In 2018, GFSEC members identified cases of raw material support in Indonesia. These measures were indicated as remaining under discussion in the Paris Ministerial report. There have been no exchanges on the alleged measures since then. The evidence at hand and the balance of collective exchanges suggests that these measures remain under discussion.

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

124. Examples of distortive discretionary policy measures or non-application of market policy measures were also raised by members during the review process. Questions were posed to Brazil, China, the European Union, India, Korea, Russia, South Africa, Turkey and the United States.

125. Brazil was asked to comment on potential government involvement in mergers and acquisitions. More specifically, Brazil was invited to provide explanations on the role and responsibility of the Administrative Council for Economic Defense (CADE) in this process. Brazil explained that CADE’s assessment of M&As transactions in the steel sector focuses on the effects of these transactions on competition in the relevant market. If there is a risk that the transaction in question would undermine competition, the authority may recommend to the companies concerned, the adoption of remedies such as disinvestment, or it can even not allow the transaction. The
The evidence at hand and the balance of collective exchanges suggests that the practices discussed would not fall under paragraph 57 of the Berlin Ministerial report.

126. The European Union was also asked to explain if the relevant authorities were involved in recent M&As to ensure the closure of inefficient capacities from these transactions. The European Union explained that the approval of one merger by the European Commission was conditional on the divestiture of an extensive remedy package of steel production and distribution assets to preserve effective competition on the European Steel market. Regarding another merger, the European Union was also asked to comment whether support was provided for the acquisition of a steelmaking company. Responding to the question, it was noted that the European Commission investigated the financial support to the continuation of steelmaker, which was provided by the Member State in the period before the closing of the acquisition and, with the exception of the unlawful subsidies which were investigated and recovered, the European Union is not aware of any similar support. The evidence at hand and the balance of collective exchanges suggests that the practices discussed would not fall under paragraph 57 of the Berlin Ministerial report.

127. India was asked to comment on its Policy for providing preference to domestically manufactured iron & steel products and the effects of this policy on capacity developments in the economy. More specifically, members noted that the revised draft version of this Policy provides for preferential treatments in the process of government procurements to specific domestically produced steel products and capital goods used for producing steel products by requiring tenderers to meet certain levels of local content. India explained that the policy in question does not make it mandatory to purchase from domestic producers, but only provides for 15% minimum of domestic value addition in some steel products to be considered for government procurement. India also noted that a draft revision of the Policy is only under the consideration stage and all repercussions arising therefrom shall be considered before the Policy is amended. The evidence at hand and the balance of collective exchanges suggests that the practices discussed would not fall under paragraph 57 of the Berlin Ministerial report.

128. During the review, questions were also raised regarding bankruptcy proceedings in GFSEC economies. For India, some members posed questions on this matter in 2018. These measures were indicated as remaining under discussion in the Paris Ministerial Report and India was invited to provide additional explanations. India noted that some steelmaking companies that were under bankruptcy proceedings had exited the process, while for others, the process was still ongoing. It was also explained that the Insolvency and Bankruptcy Code governs the resolution of disputes between debtors and creditors and allows financial creditors to initiate the insolvency resolution process. India noted that the government has no role to play in the support or prevention of companies’ exit from the market or in the proceedings per se. The evidence at hand and the balance of collective exchanges suggests that the practices discussed would not fall under paragraph 57 of the Berlin Ministerial report. The European Union, Korea, Russia, South Africa and Turkey also have provided explanations regarding bankruptcy proceedings. The evidence at hand and the balance of collective exchanges suggests that the practices discussed would not fall under paragraph 57 of the Berlin Ministerial report.

129. In 2018, GFSEC members pointed out specific examples of support to bankrupt companies in China and support provided for outward investment. These measures were indicated as remaining under discussion in the Paris Ministerial report and were further discussed at the recent review sessions. In particular, China was invited to provide additional information and explanations on the support provided for outward investment. China explained that it has no overseas investment support measures that distort the market. It was also noted that China’s outward investments adhere to the principles of Enterprise Independent Decision-making and
Market Operations. China also explained that Chinese enterprises make independent decisions, assume responsibility for their own profits and losses, and bear the risks at their own discretion.

130. GFSEC members noted a number of overseas investment transactions by Chinese steelmaking enterprises since 2014 and posed several additional questions in this regard. China was asked to confirm that the recent overseas investments of its steelmaking enterprises have been undertaken without any financial support measures by the government or government-related entities. Responding to the question raised, China noted that its government has not provided support for overseas investment. Some members posed follow-up questions and questioned a variety of financial support measures provided by the Chinese government to facilitate Chinese investments in steel production projects in other economies in line with the 2015 State Council Guiding Opinion on Promoting International Cooperation in Production Capacity and Equipment Manufacturing. Responding to this question, China explained that the State Council’s Guiding Opinion is not mandatory and that Chinese enterprises make their overseas investment decisions based on their own business considerations.

131. In general, views pointed to the measures regarding bankrupt companies as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case. The measures relating to outward investment remain under discussion. The United States was asked to comment on a 30-year extension from compliance with Maximum Achievable Control Technology (MACT) standards that was granted to coke ovens, which are mainly used in steel industry. It was noted that such an extension allows the U.S. steel industry to save a significant amount of compliance costs and therefore this measure can distort the market or provide unfair competitive advantages to U.S. steel producers. Responding to the question raised, the United States noted that the measure relates to the production of coke, a fuel source used in the production of steel by certain types of crude steelmaking facilities. Thus, the measure in question pertain to an upstream material and energy input, rather than to crude steel production itself. The United States also noted that under the applicable regulations, coke ovens still had to meet specific mandatory environmental and safety standards as set by the U.S. Environmental Protection Agency. The evidence at hand and the balance of collective exchanges suggests that the measure in question would not fall under paragraph 57 of the Berlin Ministerial report.
Annex 2. Details of the review process

A new round of the GFSEC review process took place between December 2018 and September 2019 building on the work done up to the 2018 Paris Ministerial meeting. 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 results of the collective discussion included in this Annex with regards to each measure follows the criteria and has the implications set out in Section 2 of this 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. This Annex builds on the Annex 3 of the Paris Ministerial report. It includes issues for which the discussion is ongoing according to the Paris report as well as new issues raised. Consequently, it should be read in conjunction with Annex 3 of the Paris Ministerial report.

**Preferential financing inconsistent with market-based conditions**

**Canada**

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<tr>
<th>Type of Measure</th>
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<tr>
<td>Loans</td>
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**European Union**

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**P. R. of China**

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**United States**

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<tr>
<td>Bond guarantee</td>
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**Equity infusions and conversions**

*P. R. of China*

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**Grants, awards and cost refunds**

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*Canada*

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*European Union*

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<td>Grants provided to steel industry (Poland)</td>
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*Japan*

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### P. R. of China

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### Tax benefits

### Australia

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<td>Tax holidays</td>
<td>Under ongoing discussion</td>
</tr>
</tbody>
</table>
**Mexico**

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support applying to temporary imports</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report</td>
</tr>
</tbody>
</table>

**P. R. of China**

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax exemptions or reductions</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Tax rebates</td>
<td>In general, views pointed to measures falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Tax refund</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Writing off taxable income</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
</tbody>
</table>

**United States**

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax credits</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
</tr>
<tr>
<td>Tax exemptions</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
</tr>
<tr>
<td>Tax reduction</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
</tr>
</tbody>
</table>

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

**Canada**

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of energy</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
</tr>
</tbody>
</table>

**European Union**

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse gas emissions trading system</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
</tr>
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### Indonesia

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export restrictions on nickel ores and metal waste and scrap</td>
<td>Under ongoing discussion</td>
</tr>
<tr>
<td>Raw materials support</td>
<td>Under ongoing discussion</td>
</tr>
</tbody>
</table>

### P. R. of China

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export quotas on coke, coking coal, metal waste etc.</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Export duties on chromium, ferronickel, crude steel, iron ore etc.</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Export licensing requirements on coke, coking coal, manganese, molybdenum</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Export taxes and non-refundable VAT on export of ingots and other primary forms of stainless steel</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Utility bill compensation</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Provision of electricity for less than adequate remuneration (LTAR)</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Provision of land and land-use rights for less than adequate remuneration (LTAR)</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>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</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
</tbody>
</table>

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

### Brazil

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government involvement in M&amp;As</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report</td>
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</table>
### European Union

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy proceedings</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
</tr>
<tr>
<td>Government involvement in M&amp;As</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
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</table>

### India

<table>
<thead>
<tr>
<th>Type of Measure</th>
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<tbody>
<tr>
<td>Bankruptcy proceedings</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report</td>
</tr>
<tr>
<td>Local content requirements</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report</td>
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</table>

### Korea

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
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<tbody>
<tr>
<td>Bankruptcy proceedings</td>
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</table>

### P. R. of China

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support for bankrupt companies</td>
<td>In general, views pointed to the measures discussed as falling under paragraph 57 of the Berlin Ministerial report, while China stated its view that this was not the case.</td>
</tr>
<tr>
<td>Outward investment support</td>
<td>Under ongoing discussion</td>
</tr>
</tbody>
</table>

### Russia

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
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</thead>
<tbody>
<tr>
<td>Bankruptcy proceedings</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report</td>
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</table>

### South Africa

<table>
<thead>
<tr>
<th>Type of Measure</th>
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<tbody>
<tr>
<td>Bankruptcy proceedings</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
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</table>

### Turkey

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<tbody>
<tr>
<td>Bankruptcy proceedings</td>
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</table>
**United States**

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Collective review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lax enforcement of environmental regulations</td>
<td>Not under paragraph 57 of the Berlin Ministerial Report (*)</td>
</tr>
</tbody>
</table>

(*) The member has reduced capacity in the past two decades and thus not contributed to excess capacity.
Annex 3. Voluntary commitments

At the meeting of the Global Forum on Steel Excess Capacity on 28-29 March 2019, all members of the Global Forum agreed to provide voluntary commitments to further the work of the Forum. The Chair invited members to provide voluntary commitments for reducing excess capacity, eliminating market-distorting support measures that contribute thereto and/or preventing the recurrence of such capacity, taking into account the Berlin principles and the Paris Ministerial Report, in particular paragraphs 46 through 48, which indicate the nature and scope of commitments agreed to in Paris and noting that, among others, paragraphs 43, 45 and 52 of the Paris Ministerial Report provide useful context in this regard. This annex lists voluntary commitments that have been provided by Members of the Global Forum on Steel Excess Capacity.

Argentina

The Republic of Argentina does not provide market distorting subsidies or other support measures that contribute to steel excess capacity and commits to not implementing such subsidies or measures in the future, in line with the principles and recommendations of the GFSEC Berlin Ministerial Report.

Furthermore, the Republic of Argentina commits to continue working to improve the regulatory framework for the steel industry, in particular through the implementation of a robust competition policy, and to ensuring that the steel sector continues to operate exclusively under market forces.

Australia

Australia does not have any specific measures in place to support the steel sector. Consistent with the commitment by G20 Leaders, Australia commits to refrain from introducing market distorting measures which contribute to steel excess capacity.

Brazil

Brazil reaffirms its support to the principles and recommendations laid out in the GFSEC Berlin Ministerial Report. We commit to maintaining our policies aimed at improving the regulatory framework within which the steel industry operates, with a view to preventing excess capacity. Specifically, we will continue to improve our practices in the area of competition, taking into account the best practices discussed in International organizations such as the OECD.

Brazil will maintain a market-driven approach to resource allocation in the steel sector, based on the competitive positions of steel enterprises. A driving force in that direction is Brazil’s expansion of its bilateral, regional and multilateral trade agreements.

Brazil reserves its right to withdraw its commitments, in case other Members do not comply with their Berlin Ministerial commitments.
Canada

Canada has a market-based steel sector that is constantly adjusting to difficult global markets for steel. Canada remains concerned with over production of steel by operators that do not compete on complete market based conditions.

Canada is committed to the information-sharing mechanism established through the Global Forum, and will continue to provide timely and transparent information in relation to the Canadian steel sector.

EU and its Members States

In the Berlin Ministerial, GFSEC Members pledged to identify support measures to be eliminated because they contribute to excess capacity and to further share with the Forum tangible, time-bound actions in order to achieve such elimination. This was further underlined by the Paris Ministerial, which, inter alia, also explicitly called for the GFSEC to identify further necessary reductions in capacity.

The Paris Ministerial confirmed that the information sharing and review process plays a key role to inform the choice of Members to provide voluntary commitments. Such voluntary commitments are fully left at the discretion of each Member, who are welcome to provide them wherever they can, in support of the wider objectives of the Forum to eliminate overcapacity and support measures that contribute thereto. Voluntary commitments should therefore reflect the outcomes of the review process.

The Forum's review process has identified a number of such measures, as confirmed by the Paris Ministerial and in the balance of views expressed under Japanese Presidency. It is essential that these measures are therefore identified for elimination--otherwise the Forum will have failed to deliver on a key priority, and those whose measures are at stake will have shown they are not committed to fulfilling their pledges nor to the Forum process.

None of these measures involves the EU or any of its Member States. Indeed, the EU has not caused excess capacity but significantly suffered from its effects. The Paris Ministerial confirmed the key outcomes of the review process with respect to the subsidies and other types of support by government and government-related entities. The balance of views showed that none of the measures in place by the EU was under paragraph 57 of the Berlin Ministerial Report. Moreover, the Paris Ministerial confirmed that the EU has reduced capacity in the past two decades and thus not contributed to global excess capacity. The EU is therefore not called upon to present voluntary commitments regarding support measures contributing to excess capacity.

However, in a spirit of responsibility and loyalty to the Forum process, and in support of the multilateral approach it represents, the EU states as follows:

The review process has examined the EU’s competition policy and its measures. Reflecting the outcomes of such process, 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. State owned enterprises are subject to merger and State aid control and effective enforcement of those rules, just as private companies. Furthermore, the EU State aid rules prohibit the granting of any aid to invest into capacity by steel producers and of any sort of restructuring aid to steel producers in financial difficulties.
The EU reserves its right to withdraw the foregoing, not least should other Members not live up to their Berlin, Paris Ministerial commitments as well as those made under the current Japanese Presidency. This applies to all EU Member States.

**India**

The growth of the Indian Steel Sector is, and will be, based on market forces. It shall primarily be led by domestic demand and not based on any market distorting practices or measures. India will produce its steel through the appropriate energy efficient methods and shall abide by the targets set for itself in COP21.

**Japan**

Japan provides the following voluntary commitment, taking into account insights gained through the GFSEC.

The Japanese steel industry promptly initiated their structural adjustments when faced with the peak-out of steel demand in the late 1970s, which occurred at the time of recessions caused mainly by oil crises and a sharp yen appreciation, resulting in a significant reduction of their steel-making capacity through the 1980s and 1990s. Such structural adjustments have been facilitated by a policy framework provided by the government, which has aimed to address depressed industries, including the steel industry. Since then, steel producing companies in Japan have conducted a continuous and voluntary adjustment, always striving to maintain their economic viability and competitiveness by adjusting their capacity and production outputs to optimal levels, as well as reorganizing their corporate structures through M&A, in line with market forces. Such corporate-level efforts are reasonably expected to continue in the future.

Japan has learned lessons from the past experiences in its own industry, as well as the experiences of other jurisdictions, including information obtained through the activities of the GFSEC. For instance, Japan has noted the importance of not expanding capacity based on over-optimistic demand projections, and not delaying, but rather facilitating in a careful manner, needed structural adjustments in the face of a changed demand environment.

Japan currently does not have any excess steel-making capacity and will maintain its policy framework, including its competition policy, which 1) makes market functions work effectively; 2) encourages more efficient industrial structures and corporate relations; 3) does not allow provisions of any market distorting subsidies and other government support measures that contribute to excess steel-making capacity; and 4) continues encouraging steel companies to avoid over-production and hold only appropriate steel-making capacity in accordance with market conditions.

**Korea**

Korea supports the GFSEC’s efforts to increase transparency through information sharing, and to develop policy solutions to address global excess capacity. Korea believes that global steel excess capacity is a challenge to be addressed, and notes the GFSEC’s importance and value in this respect. In line with the Berlin and Paris Ministerial reports, the Korean government does not provide subsidies or other support measures which contribute to global steel excess capacity. Korea commits to refrain from adopting such market-distorting subsidies in the future, and to ensure proper market functioning. The Korean steel industry, based on market principles, is voluntarily
reducing its crude steelmaking capacities, and the Korean government will continue its policy efforts to facilitate such voluntary and preemptive corporate restructuring.

**Mexico**

Since 2016, when the G20 Global Forum on Steel Excess Capacity (GFSEC) was established, Mexico has actively participated in this forum, with the objective to face this global challenge with that same approach. It also has been committed to complete G20 ministerial mandates in Hangzhou 2016, in Hamburg 2017 and in Paris 2018:

- To strengthen cooperation, enhance exchange of information and find collective solutions to tackle global steel excess capacity.
- To take the necessary actions to eliminate market-distorting subsidies and other types of support by governments that maintain or create excess capacity.
- To commit in developing policy solutions focused on diminish and avoid the resurgence of excess capacity amounts.

Mexico has complied with the information-sharing mechanism started in 2017 and in 2018, it committed:

- To refrain from providing subsidies or other governmental support measures, including those provided by government-related institutions that (i) sustain uneconomic or consistently loss-making steel plans; (ii) encourage or attract investment to create additional steelmaking capacity which would otherwise not be built or (iii) otherwise distort competition; and,
- To ensure that laws and regulations, government plans, policies, whether issued or implemented by government entities at all levels or government-related institutions, will not encourage increase unnecessary steelmaking capacity. Mexico reaffirm its commitment to ensure that capacity increases are not linked to any form of government support, and demand considerations are duly taken into consideration.

Mexico recognizes the importance to continue working with the results derived from these almost three years of collaborative work among the steelmaking economies. For that, it is necessary to follow up the principles conforming this Global Forum, in specific those related with developing concrete policy solutions to structurally eliminate the negative impact from the steel excess capacity. In that sense, Mexico will commit:

- To face global excess capacity looking for policy solutions that promote new investment, new sources of steel demand and trade flows that reflects market-based supply and demand conditions.
- To monitoring Mexican steel sector complies with national environmental, quality and safety standards.
- To continue fostering a level-playing field in the steel sector, as it is done in all the Mexican industrial sectors, refraining from providing market-distorting support measures that could contribute to excess capacity.
- To continue enhancing reciprocal bases transparency work.

Mexico believes that extending the GFSEC beyond 2019, will help to continue working on finding real solutions towards a sustainable development of the steel industry.
**Norway**

Norway supports the work of the G20/OECD Global Forum on Steel Excess Capacity in its efforts to find common solutions to the global problem of excess capacity through a multilateral process. GFSEC Members must honour their pledges from the Ministerial meetings in Berlin (2017) and Paris (2018) to identify support measures to be eliminated because they contribute to excess capacity, and to further share with the Forum tangible, time-bound actions in order to achieve such elimination. Reference is made in particular to paragraphs 43, 45 and 52 of the Paris Ministerial Report, and paragraph 57 of the Berlin Ministerial Report. Voluntary commitments, as called for in paragraph 43 from Paris, should reflect the outcomes of the review process.

Norway does not apply any measures that contribute to steel excess capacity. With no specific policies towards the support of the sector, Norway is not called upon to present commitments to eliminate any measures contributing to excess capacity.

However, in support of the multilateral approach the Forum represents, Norway states as follows:

Norway 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. State owned enterprises are subject to merger and State aid control and effective enforcement of those rules, just as private companies. Furthermore, Norwegian state aid rules prohibit the granting of any aid to invest into capacity by steel producers and of restructuring aid to steel companies in financial difficulties. Norwegian legislation in these areas is the same as the European Union legislation, due to the European Economic Area agreement.

Norway reserves its right to withdraw the foregoing, should other Members not live up to their commitments made in the Berlin and Paris ministerial meetings as well as under the current Japanese presidency.

**Russia**

Russia reaffirms its view that global steel overcapacity is the result of overinvestment that comes from excessive government interventions. Government market-distortive subsidies aimed at creating excess capacities along with 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 and level-playing field in this sector. Overcapacity affects global steel trade resulting in trade protectionism and trade distortions that ultimately lead to a slowdown in economic growth and contribute to erosion of the international rules-based system. We believe unjustified and unfair trade remedies are a kind of state support provided by third countries to their national industries. We call on GFSEC members to avoid protectionism and refrain from unjustified trade policy measures.

The multilateral dialog initiated by G20 countries and interested OECD steel-producing members through GFSEC brings mutually beneficial solution in the guiding principles for governments to develop specific policy recommendations necessary to ensure sustainable growth of the sector and provides a unique solution for other industries suffering from similar problems. Based on the above, the enforcement of the Berlin report is the effective way to overcome problems in steel industry caused by global overcapacity and to use the accumulated experience of GFSEC members to avoid them in the future.

Since comprehensive restructuring and privatization in the 90’s, when Russian steel industry reduced capacities by 27%, today it is 100% private and functions wholly in market-driven environment. Based on the global steel market conditions Russian companies adjust to the existing and emerging challenges through restructuring their facilities, merges and acquisitions, closures of
outdated capacities and other market-based decisions. Russian anti-trust authorities ensure level playing field for all enterprises including steel mills operating in its domestic market. Russia has common bankruptcy rules for all sectors and thus imposes no exit barriers for inefficient steel mills. Russian steel market is one of the world’s most open markets. We continue to contribute to the increase in domestic and global steel demands by promoting the extensive development of infrastructure projects and to ensure fair level playing field in this sphere based on Berlin and Paris reports.

**South Africa**

South Africa does not contribute to excess capacity. We experienced a decline in primary steel capacity over the period 2014-2018 as well as significant capacity reductions in the downstream industry. We have been severely impacted by the effects of excess capacity. South Africa does not provide market distorting subsidies to the steel industry.

South Africa and countries in the African region have low steel consumption rates with aspirations to develop, grow and create jobs. It is hence important that any corrective measures put in place through the Global Forum do not limit the policy levers of developing economies to preserve and grow our steel industries. In this regard, South Africa supports a balanced view taking into account the growth in developing economies and the disproportionate impact on small developing economies. South Africa participates and fulfils its information sharing commitments in support of the multilateral process to collectively address excess capacity.

**Switzerland**

Switzerland supports the mandate of the Global Forum on Steel Excess Capacity (GFSEC) and in particular, as confirmed by Members in the Berlin and Paris Ministerial Report, the work on reducing excess capacity, eliminating market-distorting support measures that contribute thereto and/or preventing the recurrence of such capacity.

Switzerland is a net importer of steel and has a limited crude steelmaking capacity of 1.4 million tons, representing only 0.07% of the total steelmaking capacity of GFSEC members. Switzerland does not have any state-owned enterprises in the steel sector nor does the Swiss government grant any kind of market-distorting subsidies and other government support measures contributing to excess capacity in the steel sector. Furthermore, Switzerland pursues a liberal market economy, where markets are driven by private initiative and competition. Companies in the steel sector compete and operate on a level playing field, regardless of their ownership or origin.

As an open and trade-oriented economy, Switzerland is a strong supporter of multilateralism and believes that the global challenge of steel excess capacity shall be addressed by working together in this Forum. We encourage all members to commit to the work of the Forum as well as to avoid trade barriers restricting free markets. Switzerland will continue to support a multilateral approach towards a global level-playing field in the steel sector.

**Turkey**

Excess capacity in the global steel market driven by market-distorting policies and subsidies has weakened the international trade system and has had harmful effects on Turkish steel industry. By the same token, Turkey supports the GFSEC activities to decrease excess capacity and to allow free and fair trade in steel sector.
In this regard, Turkey does not implement any support program that causes market distortion in steel sector. Therefore, Berlin Ministerial report reflects Turkey’s position with respect to excess capacity problem and policy recommendations. In addition, Turkey’s international commitments like the FTA with the ECSC also align with this approach.

Turkish steel market operates with principles of free competition. The concept of competition constitutes the basis for an efficiently operating market system. In that respect, The Law on the Protection of Competition No. 4054 is charged to prevent practices and operations of undertakings which distort efficient and competitive conditions, with a view to increase social welfare by safeguarding the freedom of enterprise and ensuring efficiency in resource allocation.

Furthermore, there are no public companies operating in the steel industry in Turkey, so the government is not in the sector as a market player. Therefore, Turkey cannot commit reduction in steel capacity as it is not possible according to legal framework; however Turkey commits not to take actions which distort competition in the steel sector.

United States

The United States has pursued policies enabling steelmakers to adjust capacity to respond to market forces. Those economic policies include: policies that encourage innovation; robust antitrust laws to ensure competition; non-discriminatory enforcement of strong labor and environmental regulations; enforcement of U.S. trade laws; transparent and efficient bankruptcy laws; and benefits and retraining for laid off workers. In contrast to some other countries, these pro-competitive conditions have allowed U.S. Steelmakers to make market-driven decisions to adjust, reduce capacity and exit the market, or to make new investments. The United States has not established central government plans, targets, or subsidies to achieve the net expansion or reduction of steel capacity, because those approaches risk creating serious market distortions. The dynamic nature of market adjustments in the United States has enhanced the competitiveness of U.S. firms, but these policies have not been without costs: U.S. Steel employment declined 33 percent over the last two decades, while steel production dropped 43 percent from its 1973 peak to 2016. This has reinforced the U.S. commitment to address global excess capacity.

The United States will continue to provide timely and thorough information into the Global Forum’s information sharing and review process. This function of the Forum requires similar commitment from all members.
Annex 4. Global Forum members’ policies and views on addressing capacity

EU and its Member States

The EU and its Member States have significant difficulties with fundamental aspects of this report. The report is not balanced. It does not faithfully reflect the gravity of the persisting problem, nor the fact that the EU and many other jurisdictions continue to suffer heavily from an overcapacity they have neither caused nor contributed to—while praising the efforts of certain jurisdictions well in excess of fact and of the sentiment of a vast majority of GFSEC Members. The report fails to explain that, despite the overwhelming support of the majority of its Members, after two and a half years the GFSEC does not yet implement certain key Berlin and Paris Ministerial commitments, hampered as regards certain jurisdictions by difficulties in producing full information on capacity developments and the lack of identification of support measures falling under paragraph 57 of the Berlin Ministerial. The report also fails to explicitly quantify the additional reductions in capacity that must be identified according to the Paris Ministerial—an important issue informing the definition of voluntary commitments. Notwithstanding these difficulties, the EU and its Members States are ready, with great restraint and a deep sense of responsibility, to support the report as it stands. The EU calls for the same approach by all Members, expecting those who have not yet done so to join the overwhelming consensus the report enjoys, and reserving its position otherwise. In view of the gravity of the problem at hand, the EU urges for a prolongation of the GFSEC on its current basis.

Russia

Russia believes that the goal of the GFSEC is not only to reduce existing excess capacity, but also to prevent emergence of new excess capacities with due consideration of the experience of the countries, which have undergone painful restructuring of their steel industries and closures of steel mills in their struggle to eliminate steel excess capacities. Historical experience shows that steel excess capacities are the result of the underestimation of risks and consequences of overinvestments both by governments, which provide excessive support for development of their national industries and by private investors. The prevention of excess capacities is in line with previous arrangements of the GFSEC, and in particular with Paragraph 49 of the Berlin report.

Unlike other sectors, steel industry is capital intensive; historical experience of some GFSEC members shows that closure of excess capacities associated with demolition of steel mills, relocation and training of the personnel in some instances is more costly than construction of new mills. However, unlike investments in new mills done by private investors, steel capacity closure costs are mostly carried out by governments, i.e., the money of taxpayers is spent to remedy wrong managerial decisions of private investors.

In this regard, Russia supports extension of GFSEC mandate and proposes following work plan aimed at prevention of new excess capacities as a priority target to the benefit of all its members:
(a) Continue participation of steel industries of GFSEC members and steel associations in open sessions of GFSEC meetings

(b) Continue the regular work of GFSEC and complement it with exchange of experience by GFSEC members on best practices, as well as burdens and costs associated with closure of excess capacities

(c) Recommend the facilitator and GFSEC members to prepare a memorandum and a presentation for governments and private investors identifying risks associated with overinvestments and emergence of new excess capacities; post them on an open platform and update the information regularly

(d) Make contacts with steel industry associations a two-way traffic: along with activities described in paragraph (a) above organize participation of the facilitator and GFSEC secretariat in meetings of top managers – members of the World Steel Association with presentation of results of the research on risks associated with steel overinvestments.

South Africa

In South Africa, the effects of steel excess capacity and the resulting steel crisis impacts the entire steel value chain as the iron-ore mines, primary steel mills, domestic manufacturers and fabricators, struggle to cope, sustain jobs and create an environment that encourages investments. South Africa has reduced capacity and remains under pressure. Companies are finding it difficult to maintain profitability, achieve economies of scale and compete with the import penetration into the African region of both primary and downstream steel products. For a country with high levels of unemployment, the trade deficit as well as job losses in the domestic steel sector are significant. South Africa and countries in the African region which remains under-developed have low steel consumption rates with aspirations to develop, grow and create jobs. In this regard, South Africa supports a balanced view through a multilateral process taking into account the growth in developing economies.
Annex 5. Extracts from G20 Communiqués

G20 Leaders, Osaka, 28-29 June, para 9

Excess Capacity

While we note the progress made so far by the Global Forum on Steel Excess Capacity (GFSEC), we ask relevant Ministers of the members of the GFSEC to explore and reach a consensus by fall 2019 on ways to further the work of the Forum.

G20 Leaders, Buenos Aires, 30 November-1 December 2018, para 28

Recalling our commitments from Hangzhou and Hamburg, we welcome the concrete policy solutions developed by the Global Forum on Steel Excess Capacity (GFSEC), facilitated by the OECD. We call on all members to implement the Berlin and Paris GFSEC Ministerial recommendations and commitments. We look forward to a substantive report by June 2019.

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.

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

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GLOBAL FORUM ON STEEL EXCESS CAPACITY

REPORT

30 NOVEMBER 2017

This report has been prepared under the direction of the Chair, based on consultations with Global Forum members and technical support and expertise from the Facilitator (OECD).
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
level\(^1\), 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 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.

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\(^1\) 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.
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.\(^2\) 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 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.

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\(^2\) 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.
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.3 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

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3 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.
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 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 Korea4), 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.5 The implications that such measures have for addressing the issue of excess capacity will depend on the precise characteristics of the measures.

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

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

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.

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.

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

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.

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
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.

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.

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6. 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.

7. 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):

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.

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):**

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.
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.\(^8\) 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.\(^9\) 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.

\section*{d) Fostering industry restructuring by assisting displaced workers}

<table>
<thead>
<tr>
<th>Key recommendations (linked to principles I and V):</th>
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<tbody>
<tr>
<td>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.</td>
</tr>
<tr>
<td>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.</td>
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<tr>
<td>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.</td>
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<tr>
<td>4. The effectiveness and efficiency of the measures should be evaluated.</td>
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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 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 from atrophy and allow them to develop skills that may be required in other occupations, thereby facilitating their return

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\(^8\) 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).

\(^9\) 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.
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):**

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.

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):

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.

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):

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 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. 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):**

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.

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.

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.

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10 Official support for export credits includes direct credit/financing, refinancing, interest rate support, guarantee or insurance.
i) Continue the process of the Global Forum

Key recommendations:

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.


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.

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 year\(^{11}\), 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.

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.

\(^{11}\) Members are encouraged to provide updates on an on-going basis and as often as possible.

GLOBAL FORUM ON STEEL EXCESS CAPACITY

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.

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 report. 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.

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-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.

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**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

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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.

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.


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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 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 equipment should be transparent, reflect market pricing and practices, and take note of guidelines agreed among some members and ongoing 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.
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.
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. 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. 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 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. 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.

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3 Source: presentations made by the World Steel Association at the GFSEC working 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.

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 2,267.8 mmt (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.
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 OECD indicate that, despite this downward adjustment, capacity in member economies was 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 steel. This warrants further reductions in capacity.

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 2017. 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.

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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, 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.
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 focused 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 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 them

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.

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,

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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.
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.

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&A 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 ongoing 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
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.

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 mmt\(^{12}\) 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 gap\(^{13}\). 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.

\(^{12}\) 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.
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 a half before the world steel markets reached their 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 94.2mmt, 35.8mmt and 32.3mmt, respectively, during the same time period. Compared to 2010, capacity in China is up by 247.6mmt, equivalent to an increase in relative terms of 30.9%. In comparison with 2010, economies where steelmaking capacity also increased included India (50.2mmt or an increase of 64.3%), Turkey (9.4mmt or an increase of 22.1%) and Korea (8.91mmt 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). 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 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

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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.

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 capacity\(^ {15}\), 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.

- **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.

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\(^ {15}\) 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.
- **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
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 8. 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 economies\(^1\), plus the incumbent G20 Presidency. The incumbent G20 Presidency and two members of the 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.

\(^1\) China, The European Union, Japan, India, The United States of America, Russia, Korea and Brazil
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