The Political Economy of Subsidies:
The experience from the steel industry

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The European Steel Crisis 1974-1988

- **1974-1980** - Oil crisis causes major reduction in steel demand, with devastating effect on prices and losses
  - Competition within Europe distorted by subsidies

- **1980-1988** - Within the European Coal and Steel Community (ECSC), set up in 1952, the "Davignon Plan" includes production quotas, subsidy regulations, massive plant closures and social measures
  - 1980-85 State Aid of EUR 40 billion (principally Italy, France, UK followed by Germany, Belgium)
  - Reduction of 40mt capacity and 48% of jobs
# The Steel Aid Codes (under ECSC)

<table>
<thead>
<tr>
<th>Code</th>
<th>Year</th>
<th>Description</th>
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<tbody>
<tr>
<td>First Steel Aid Code</td>
<td>1980</td>
<td>Ineffective</td>
</tr>
<tr>
<td>Second Steel Aid Code</td>
<td>1981</td>
<td>Linked to capacity reduction</td>
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<tr>
<td>Third to Fifth Steel Aid Codes</td>
<td>1985 - 1996</td>
<td>Limited to R&amp;D, Environment, Closure, Restructuring and Regional Investment</td>
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<tr>
<td>New Steel Crisis</td>
<td>Early 1990s</td>
<td>Restructuring Aid allowed in return for massive capacity cuts; Social support</td>
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<td></td>
<td></td>
<td>(Exceptional decisions for aid in Eastern Germany, Italy, Spain and Portugal)</td>
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<tr>
<td>Sixth Steel Aid Code</td>
<td>1996</td>
<td>Limited to R&amp;D, Environment, Closure</td>
</tr>
<tr>
<td>EU Accession Countries</td>
<td>1997</td>
<td>Includes Restructuring based on Viability plans, linked to capacity reduction</td>
</tr>
</tbody>
</table>
British Steel Corporation
1974/75 – 1994/95

Yr-end   75 80 85 90 95
March    228 210 208 197 186
         166 142 109  90  74  69  63  53  52  55  56  40  40
Profit  -1500 -1000 -500  0  500 1000 1500 2000 2500
Government Cash  0  50 100 150 200 250 300 350 400
Employees ‘000 0 50 100 150 200 250 300 350 400

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A Multilateral Steel Agreement (MSA)?

1990s Negotiations within OECD Steel Committee on anti-subsidy MSA, initiated by US: unsuccessful

2002-2004 New Steel "Crisis": new negotiations by OECD Steel Committee High Level Group: unsuccessful

Problems include:

- Rights to assist new steel investment of Developing US States (e.g. Mississippi) and Developing Countries (e.g. India)
- Rights of US companies to initiate Countervailing Duties actions against imports, whether MSA-compliant or not
The International Political Economy of Steel Subsidies

The United States
- is now systemic net importer of steel
- has a steel industry very hostile to "unfair" "dumped" imported steel, especially in recessions
- is challenged by China and the low renminbi

The European Union
- opposes Russia's dual pricing of gas - a subsidy?
China
- steel development spectacular in the 2000s, at 500mt now accounts for half the world's integrated steel industry;
- a hybrid of older plants and new plants, primarily serving the Chinese economy.

India's growth to 100-200mt to come, if land-use and financing problems can be overcome

Brazil, Russia, Ukraine: the low-cost locations for basic steelmaking, based on access to raw materials
Are subsidies the problem?

- Where are significant steel subsidies? Russian gas? Chinese coal? Climate policy-linked allocations?
- Is the perception of subsidies based on:
  - challenge of imports to US from state-owned companies (1960s-)?
  - memories of post-oil crisis 1974-1985?
  - disruption from the collapse of the FSU in the early 1990s?
- Do current subsidies make a significant difference?
- Biggest challenge for steel companies:
  - structural change (BRICs; raw materials)
  - high fixed costs
  - traditional cycles