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

Christopher Beauman

Senior Adviser, European Bank for Reconstruction and Development

E-mail: beaumanc@ebrd.com

Berlin, Climate Policy Initiative Launch: 12 November 2009

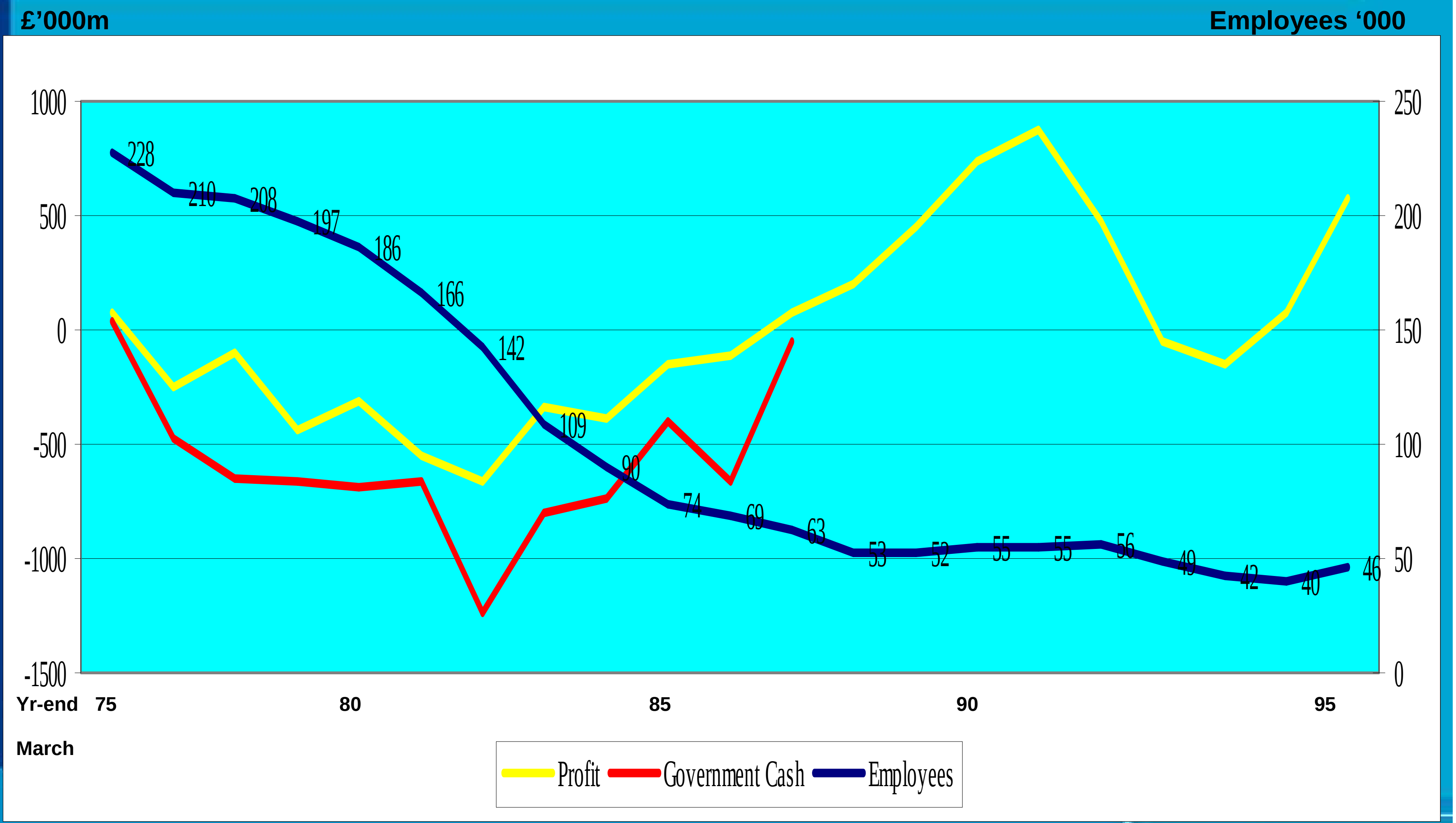
The European Steel Crisis 1974-1988

- 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)

First Steel Aid Code	1980	Ineffective
Second Steel Aid Code	1981	Linked to capacity reduction
Third to Fifth Steel Aid Codes	1985 - 1996	Limited to R&D, Environment, Closure, Restructuring and Regional Investment
New Steel Crisis	Early 1990s	Restructuring Aid allowed in return for massive capacity cuts; Social support (Exceptional decisions for aid in Eastern Germany, Italy, Spain and Portugal)
Sixth Steel Aid Code	1996	Limited to R&D, Environment, Closure
EU Accession Countries	1997	Includes Restructuring based on Viability plans, linked to capacity reduction

British Steel Corporation
1974/75 – 1994/95



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?

The International Political Economy of Steel Subsidies ………………….(cont'd).

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