



ITEM 11: STATE-OWNED ENTERPRISES AND SUBSIDISATION IN THE STEEL SECTOR

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Agenda

1. Recalling how the **sample of enterprises is obtained**
2. China and India, **an opportunity for investigation**
3. **Expanding the analysis** for the final report
4. **Final results** and their implications
5. Mitigating **potential sensitivities**
6. **Concluding remarks**




1. Novel merging of two OECD steel datasets

- The SOE and POE samples used in the report are obtained through a **two phased process**, which includes linking the OECD Steel Database and subsidy data collected by the Steel Secretariat.

Phase I

Phase II



SOEs and POEs are matched to the subsidy data at the firm-level.

The list of matches is refined by excluding enterprises for which there is insufficient information for analytical purposes.



1. Novel merging of two OECD steel datasets

The study conducts analysis on **individual jurisdictions** with **both subsidised SOEs and POEs**



Phase II results indicate that only **China and India** can form the basis of investigation.

- **Possible heterogeneity in the subsidy data**
- **Inherent asymmetry in the ownership data**
- **Lack of a viable control group (i.e. unsubsidised SOEs and POEs)**

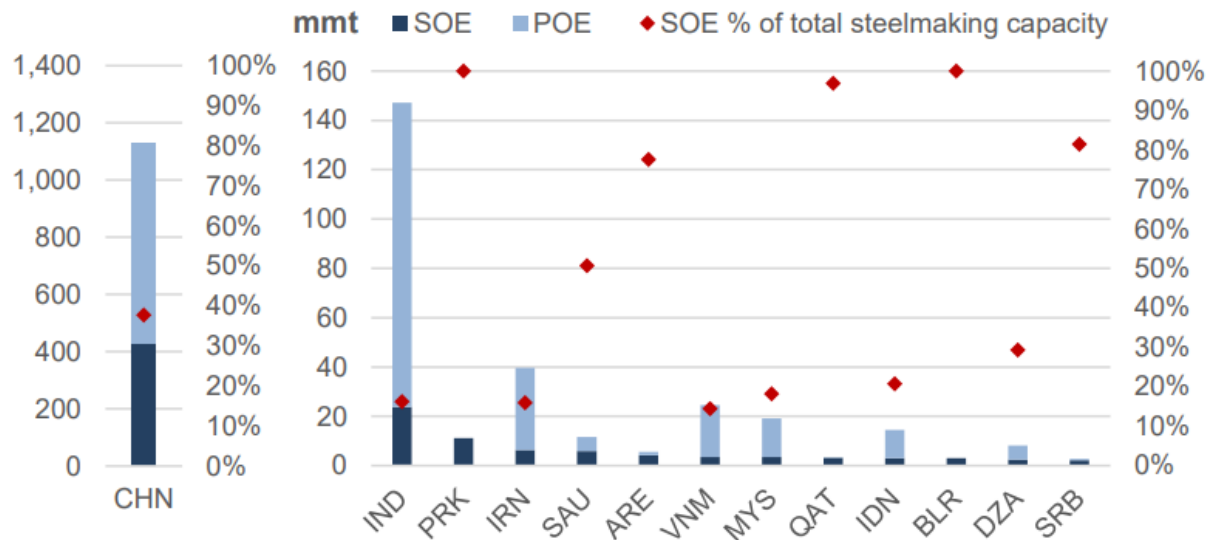
- **China: 27 SOEs and 11 POEs**
- **India: 2 SOEs and 9 POEs**



2. China and India, an opportunity for investigation

The presence of SOEs in the steel sector has increased significantly in the last 20 years, with their share of **global steelmaking capacity growing to 21% in 2021**. However, their presence is **unequally distributed across countries, with China and India ranking 1st and 2nd respectively in terms of state-owned steelmaking capacity presence.**

A. Jurisdictions with SOE steelmaking capacity \geq 2 mmt



This study presents an **opportunity to obtain greater insight into the functioning of SOEs in the aforementioned jurisdictions**, including by considering the impact of subsidies and government support measures.



3. Expanding the analysis for the final report

Objective of the interim report: describe the methodology used to obtain the sample enterprises for investigation, and provide preliminary findings for said sample.

Ultimate objective: to identify differences in the economic performance of SOEs and POEs, *conditional* on the subsidies and government support they may receive.



Financial data

Financial data is obtained by matching the sample of enterprises against their corresponding ORBIS identifier.

Financial data (both across time and variables) is not always sufficient.

As such, the analysis is restricted to **2011 to 2020 for China and 2011 to 2021 for India.**



Analysis

Analysis of **anonymised financial, subsidy, and steelmaking capacity data through time, including through econometric analysis.**

The regressions in the paper utilise **the random or fixed effect models depending on the relationships under examination.**

Controls taken into consideration include **steelmaking capacity (log) and sales (log).**



Desk research

Desk research is **used to frame the study, as well as, cross-check and expand upon findings.**

As noted in the study, while there are a few studies that have explored the linkages between ownership economic performance in the steel sector, this **paper provides novel and further insights by factoring in the impact of subsidies and government support measures.**



4. Final results and their implications

- Key findings from the analysis of the Chinese sample of enterprises are:
 - **Chinese SOEs in the sample exhibit poorer financial performance compared to POEs**
 - **Chinese SOEs received more subsidies per metric tonne** compared to private counterparts
 - **The greater the level of subsidisation to Chinese SOEs and POEs, the lower their financial performance**
 - Provided financial support may have **contributed to steelmaking capacity growth**
 - There is evidence, albeit limited, that **POEs have access to the same financial programmes utilised by SOEs**
 - The data suggests that a considerable amount of financial support to Chinese SOEs is provided **via instruments deemed to be potentially amongst the most market distortive.**
 - Subsidies may have contributed to **non-viable firms not exiting the market**



4. Final results and their implications

Favoring state-owned enterprises

by providing them with greater levels of subsidisation compared to private counterparts.



Facilitating greater levels of inefficiency

by using instruments which are potentially amongst the most market distortive.



The implications of the final results is that China is *potentially...*



Exacerbating excess steel-making capacity

through maintenance and growth of non-market driven steel-making capacity.



Contributing to an unequal playing field in global trade

by supporting unprofitable firms which may be crowding out better performing ones.



5. Mitigating potential sensitivities



Ultimately, the purpose of this paper is to **deepen the understanding of SOE functioning in the steel sector**, including by obtaining increased insight into the role of subsidies. In order to mitigate for potential sensitivities surrounding the use of subsidy data and the sample of enterprises selected for the study, several steps are taken in the paper...

01

OUTLINE METHODOLOGY FOR SAMPLE SELECTION

The study clearly outlines in a stepwise fashion how the sample of enterprises is selected, taking care to highlight the data considerations constraining said selection.



02

ANONYMISE FIRM-LEVEL DATA

The study anonymises firm-level data, including subsidy data, such that firms in the jurisdictions under study are not targeted.



03

UNDERScore EVIDENCE IS SUGGESTIVE, NOT DETERMINISTIC

The study emphasises the econometric relationships are not causal therefore implying the evidence is suggestive and not deterministic in nature.





6. Concluding remarks

- This document is submitted to delegates for discussion and with a view to declassification.
- **Contingent on approval**, the Secretariat will make the paper public-facing, and at a later stage, the paper may be developed into an STI policy paper.
 - The Secretariat invites delegates to provide written comments (should they have any) by the **14th of October 2022**.



THANK YOU!



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OECD Steel Committee Website
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