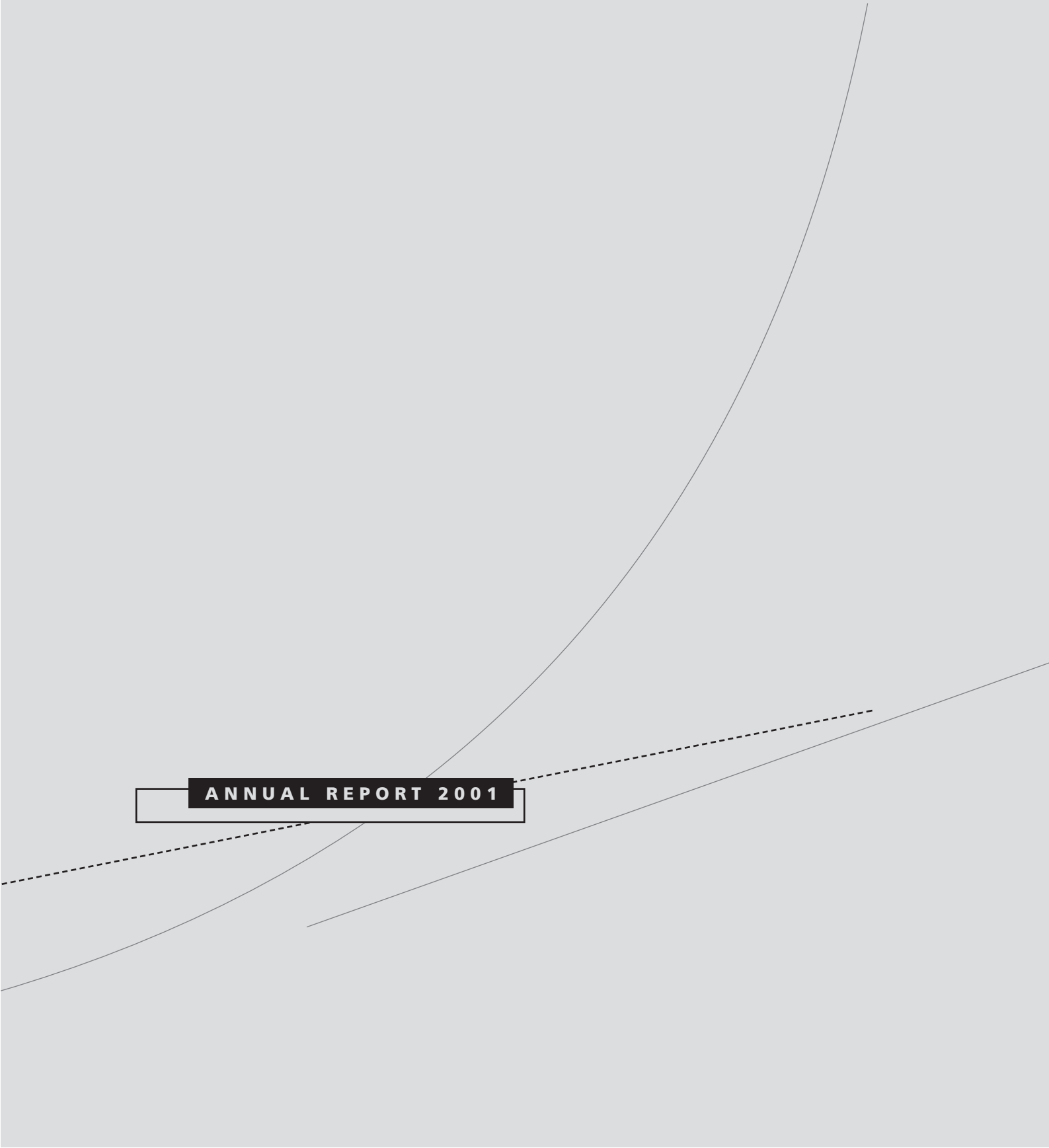
EUROFER

European Confederation of Iron and Steel Industries



ANNUAL REPORT 2001

The European Confederation of Iron and Steel Industries (EUROFER) was founded in 1976.

Its members and associate members are steel companies and national steel federations throughout the European Union (EU) and the Central and Eastern European Countries (CEECs). Together they represent almost 100% of total steel production in the EU and CEECs.

The objectives of EUROFER are co-operation amongst the national federations and companies in all matters concerning the development of the European steel industry, and representation of the common interests of its members vis-à-vis third parties, notably the European institutions and other international organisations.

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INTRODUCTION

The year 2001 was a very disappointing one for the European steel industry. Market conditions became increasingly worse in the course of the year. In spite of an adaptation of production to a clearly slackening demand in the second half year, it proved impossible to stop massive price deterioration. This was mainly due to the continuous pressure of imports from third countries over and above the already high level of the year 2000. Imports reached a record level in 2001. The EU has now become the biggest steel importer in the world and since exports also decreased at the same time as a result of the weakness of the world market, the EU trade balance continued to deteriorate.

A first increase in prices in the second quarter 2002 gives tentative cause for slight optimism. The projection of a moderate recovery in the EU economy in the course of the year with growth gathering pace in the second half appears to be on course, and should have a positive impact on the steel market.

Last year the long-term structural problems affecting the steel industry world-wide and jeopardising its viability became obvious. A major source of these problems is the continued operation of a significant amount of inefficient and uneconomic capacity. This is resulting in production which is out of line with demand, in destructive price competition, in disruptive trade flows and, to an increasing extent, in the establishment of trade barriers. This situation is a serious threat to free trade as the United States safeguard measures, and the reaction of many states thereto, are demonstrating.

This process must be reversed and the root cause has to be addressed. EUROFER therefore welcomes the negotiations started last year within the OECD and urges governments to seek a strict multilateral discipline eliminating market-distorting state aid and, furthermore, to facilitate and encourage the definitive closure of uneconomic and uncompetitive capacities. The European steel industry has long believed that such an approach is essential to create conditions for fair competition and the healthy development of the world steel industry.

Guy Dollé
President

Dietrich von Hülsen
Director General

GENERAL ECONOMIC DEVELOPMENT

The expectations of the beginning of 2001 that the European economy would be impervious to the economic slowdown in the United States and elsewhere proved short-lived. The economy of the EU was, at the beginning of the year, fundamentally healthier than many others with industrial production, investment, consumer expenditure and both business and private confidence high within a context of relatively benign inflation. However, by the second quarter, the picture was already beginning to become more sombre. The downturn in the United States was deeper and sharper than expected, and weakening demand on international markets to which the manufacturing sector in Europe is particularly exposed heightened inflationary pressure, eroded investment growth rates and purchasing power and hit previously robust growth factors. Business confidence was hit and industrial production rates began to slow.

The events of September 2001 had a huge impact on the global economy. Because economic activity was already contracting at the time of the terrorist attack in the United States, there were already risks to the short term economic outlook. The immediate effect was to intensify the slowdown and to end any hopes of an early revival in the economy in the United States and elsewhere. There was a major impact on confidence and, in Europe, forecasts for growth were cut sharply in the course of the year from 3.4% GDP growth initially to 1.6% at the end.

However, in terms of the stability of the financial system and of monetary policy, the measures to stimulate recovery in the United States and Europe were already in place prior to September and were subsequently rapidly reinforced. Interest rate and tax cuts were implemented, most notably in the United States, but also in Europe. The initial shock to the system wore off rapidly, as demonstrated by the revival of stock markets world-wide, and the development of conditions to sustain renewed growth in the course of 2002.

Development of Certain Elements of the EU Economy (yearly variations in %)

	2000	2001	2002 (forecast)
GDP	3.3	1.5	1.2
Private consumption	2.8	2.1	1.6
Investments	4.2	-0.1	0.7
of which: **Investments in equipment**	6.3	0.5	-0.1
Exports	11.3	2.1	1.8
Imports	10.5	1.7	2.7
Employment	8.4	7.8	8.0
Unemployment rate	2.3	2.5	1.6
Inflation	4.4	0.1	-0.1

Source: Official data and estimations of the European Commission

Consumption

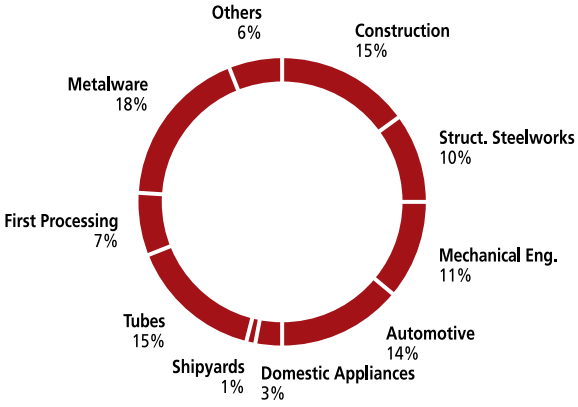
The general slowing of the economy did not significantly impact on steel consuming sectors until the middle of the year. Up to that point, consumption growth remained strong, despite challenging market conditions in terms of prices, and real consumption had been expected to grow by more than 3% in the course of the year.

Consumption levels for construction, mechanical engineering and first processing were particularly strong.

Forecasts were scaled back as the extent of the economic slowdown became clear and were sharply reviewed downward in the light of the events of September 11th.

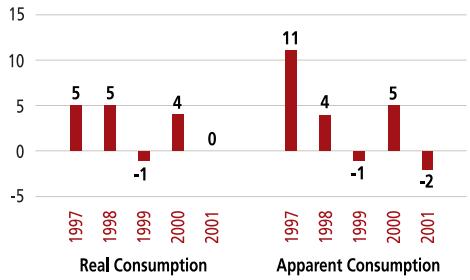
Output levels for the steel-using sectors as a whole showed virtually no growth in 2001 as the economic downturn took hold, and in the fourth quarter in particular there was a sharp contraction in activity across all sectors. The situation deteriorated even further in the first months of 2002.

Share of Consumption by Steel-using Sector



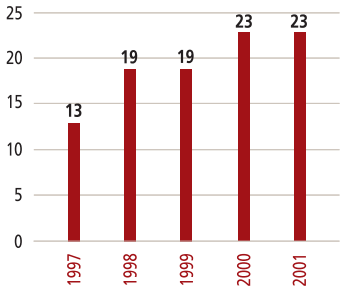
Source: EUROFER

Real and Apparent Steel Consumption: Yearly Variation (in %)



Source: EUROFER

ECSC Products Including Semis: Imports (million tonnes)



Source: Comext – Eurostat

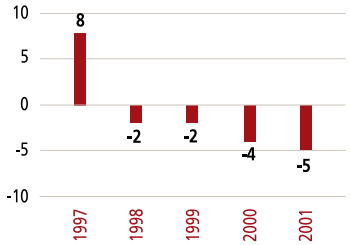
A substantial destocking process began in the second half of 2001 and intensified in the first half of 2002 as customers – both stockists and end-users – off-loaded stocks that were no longer in line with expectations for activity levels. This was provoked, and indeed fed, by the deteriorating price conditions on the market. As the perception of price weakness grew, Steel Service Centres and end-users rushed to destock. As the destocking rate accelerated, order levels fell, thus further pushing prices down as demand moved out of line with supply. This required domestic producers to make substantial sacrifices in terms of production and deliveries in order to re-balance the market.

Imports

Record levels of imports onto the EU market in 2001 complicated efforts to combat the destabilisation of the market in the second half of the year. These imports continued to flood the market even after it became apparent that demand had deteriorated significantly. So, not only did import pressure remain strong, but it rose in the falling market. Imports were running at levels that exceeded the previous record levels experienced during the Asian crisis.

Total imports of European Coal and Steel Community (ECSC) products (including semis) in 2001 were 23 million tonnes, an absolute record. Not only did the EU remain a net importer for the fourth year in a row, but it became the biggest importer in the world – exceeding by far the import levels of the United States.

ECSC Products Including Semis: Trade Balance* (million tonnes)

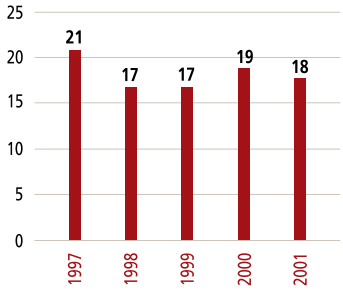


Source: Comext – Eurostat
*(Trade Balance = exports-imports)

Since the Asian crisis, the trade situation for the EU steel industry has changed fundamentally. Prior to 1998, for steel, the EU had a trade surplus of typically 7-10 million tonnes per year. In 2001, the level of imports exceeded exports by nearly 5 million tonnes. For the first time ever, imports of finished products alone, excluding semis which the industry itself consumes, exceeded exports by nearly 1.5 million tonnes. This was in the context of falling demand and disastrous price levels in the second half of the year.

An explanation for such import levels may be the difficult market conditions in the United States together with the opening of the safeguard investigation by the United States Administration in June of 2001. These two factors together may have caused tonnage to be diverted to the European market during 2001. This fact, in itself, lends support to the decision of the European Commission in 2002 to introduce provisional safeguard measures for the EU steel market in response to the introduction of safeguards by the United States in March 2002, an action that clearly threatens the EU market with further import surges.

ECSC Products Including Semis: Exports (million tonnes)

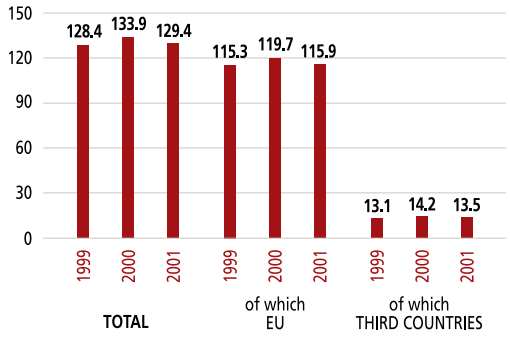


Source: Comext – Eurostat

Exports

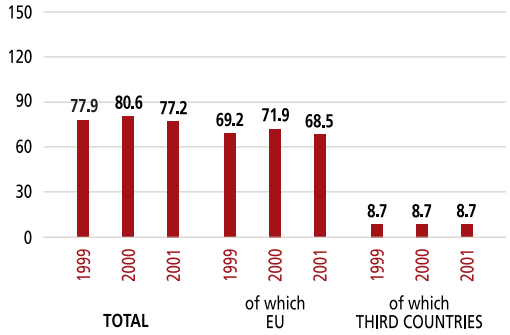
The situation of the international economy, influenced by the accelerating slowdown in the United States and the further weakening of the Japanese and Asian economies, meant that export markets showed no significant growth in 2001. European exports fell by 5% compared with the year 2000.

Carbon Steels: Total Deliveries
(million tonnes)



Source: EUROFER

Carbon Steels: Flat Products Deliveries
(million tonnes)



Source: EUROFER

Deliveries of Carbon Steels

Total deliveries of rolled finished products in carbon steels (defined as non-alloy and alloy steels other than stainless) within the EU and into third countries decreased during the year 2001 by 3.4%.

Carbon Steels Deliveries	**- 3.4%**
of which to EU markets	- 3.2%
of which to export markets	- 4.6%

Deliveries of flat and long products together within the EU were reduced by 3.2%, with deliveries to third countries down by 4.6%.

Flat products

The apparent consumption of flat products decreased over the whole year 2001 by 3%. The first signs of a weakening of economic activity in the EU were already felt in the second quarter of the year, accompanied by a surge of imports from third countries (+12% in the first half year) and stock building with merchants/Steel Service Centres and end users.

In the second half of 2001, the economic slow down became more marked and a destocking process took place, accelerating at the end of the year.

Deliveries within the EU decreased in 2001 by 4.7% (–2.1% in the first half-year and –7.7% in the second half).

Carbon Steels	
Flat Products Deliveries	**- 4.2%**
of which to EU markets	- 4.7%
of which to export markets	+ 0.1%

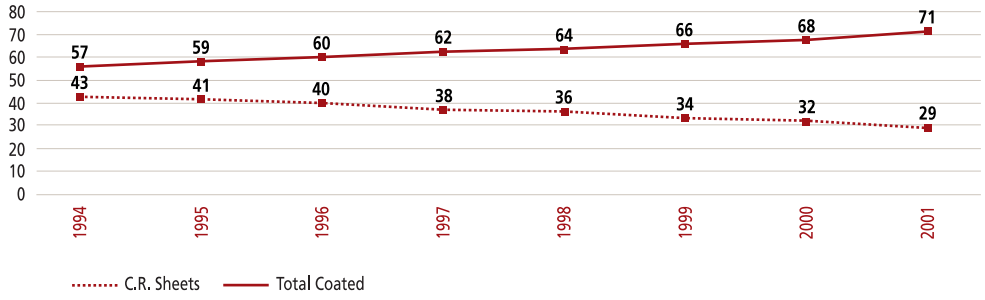
STEEL MARKET

Prices for flat steel products, which had already started to decrease in the third quarter of 2000, continued to fall throughout the whole of 2001.

The decreases of deliveries within the EU were mostly of cold rolled sheet (–11.4%), black and tin plate (–9.3%), and hot rolled flat products (–5.5%). Because of the good demand in the tube sector, the deliveries of quarto plate and wide flats (+0.7%) were less affected by the general decrease.

In spite of the ongoing process of substitution of uncoated cold rolled sheet by coated material, the deliveries of coated sheet decreased for the first time since 1996 (–1.9%), reflecting weakened production in the car industry. Only hot dipped galvanized sheet showed a positive development with a growth in deliveries of 1.3%. Electrozinc coated sheet deliveries decreased by 11.1%: in the automotive sector this was increasingly replaced by hot dipped galvanized sheet. Organic coated sheet deliveries also decreased by 2.1%.

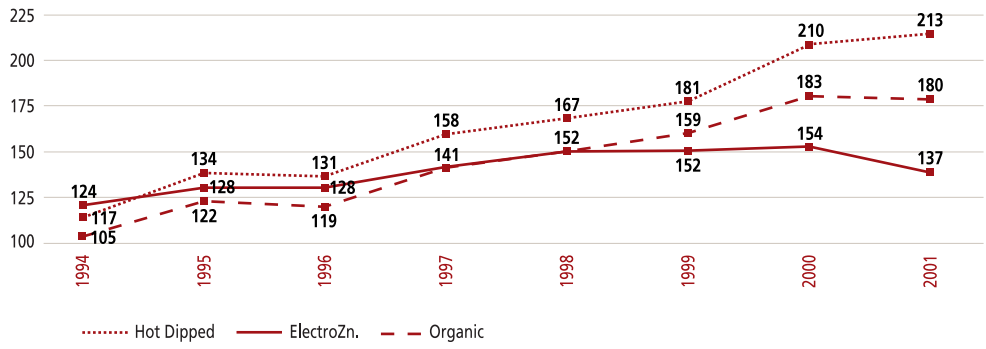
Carbon Steels: Delivery Structure of Cold Rolled Products (in %)



Source: EUROFER

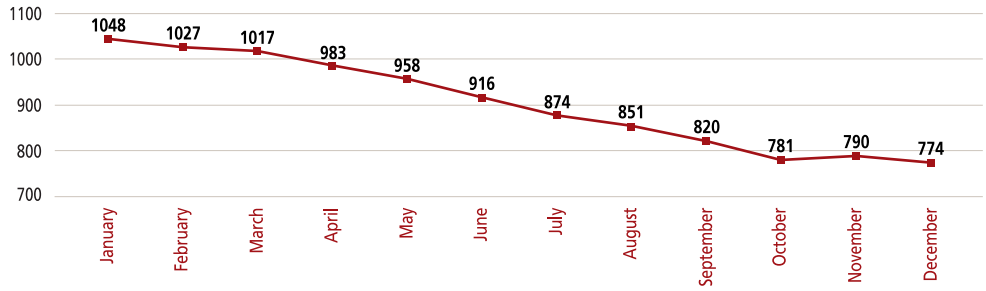
Deliveries to third countries remained nearly on the same level as in the year 2000. Quarto plate and wide flats deliveries improved by 18.6%, and coated sheets by 9.8%. On the other hand, the deliveries of cold rolled sheet decreased by 21.2%.

Carbon Steels: Development of Coated Products Deliveries within the EU (index: year 1993=100)



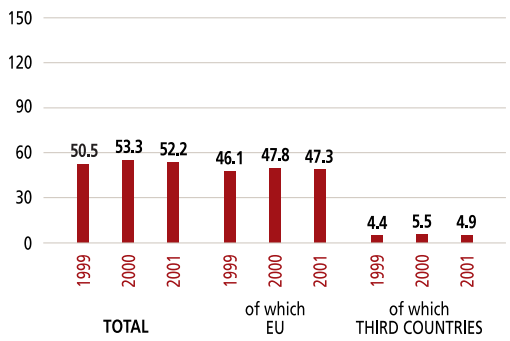
Source: EUROFER

Zinc: Monthly Development of Quotations in 2001 (US$/tonne)



Source: Metal Bulletin

Carbon Steels: Long Products Deliveries
(million tonnes)



Source: EUROFER

Long products

In 2001, the market supply of long products within the EU remained on the same level as in the previous year. Although imports from third countries increased by 10%, the deliveries of European producers decreased by 1%.

Carbon Steels	
Long Products Deliveries	**- 2.1%**
of which to EU markets	- 1.0%
of which to export markets	- 11.9%

Prices of long products in the EU remained generally more stable than those of flat products. However, there was a weakening in the fourth quarter for wire rod and rebar.

The decrease of deliveries within the EU was of merchant bars (–4.9%), wire rod (–2.9%) and heavy sections (–2.0%). Positive developments were registered for railway material (+19.4%), sheet piling (+7.5%) and rebar (+3.9%).

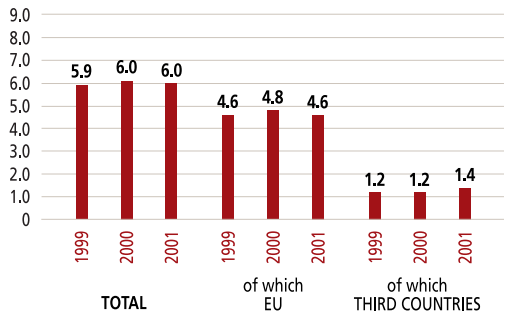
The overall deliveries into third countries decreased by 11.9%, mainly for rebar (–27.0%), wire rod (–17.7%) and heavy sections (–15.4%).

Deliveries of Special Steels

With the economic outlook becoming increasingly uncertain month after month, the main user sectors of special steels showed less dynamism as the year 2001 progressed, and the slackening of real consumption was directly reflected by a negative trend in order bookings and apparent consumption during the second half of the year. However, signs of revival in demand for stainless steel flat products appeared in the fourth quarter, in line with the price trend of alloying elements.

For the whole year, total deliveries by the EU special steels industry decreased by 1.3%. This negative development is to be attributed to the contraction of business in the EU market (-3%) whilst EU producers were able to expand exports to third countries by 10.8% year-on-year. For the year 2002, some improvement can be reasonably expected in the second part of the year, as signs of recovery in several sectors are strengthening and activity in the manufacturing industry should accelerate in 2003.

Stainless Steels: Development of Deliveries
(million tonnes)



Source: EUROFER

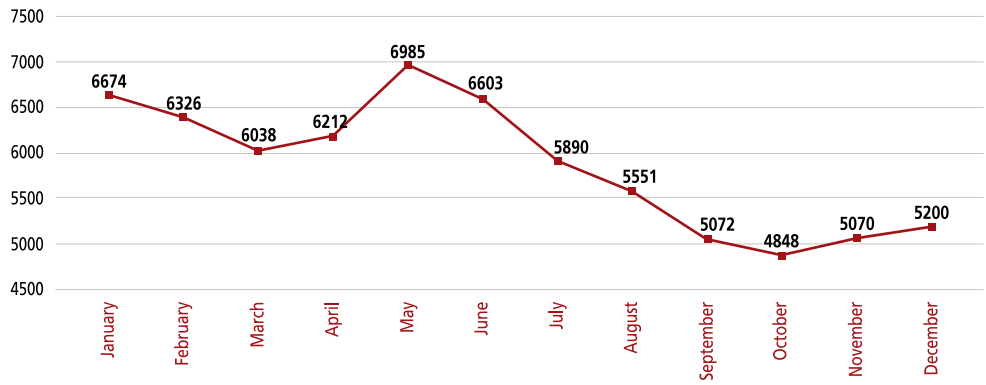
Stainless Steels

For stainless steels, the situation in 2001 was the following:

Stainless Steel Deliveries	**- 0.3%**
of which to EU markets	- 4.7%
of which to export markets	+ 17%

The negative development of apparent consumption which appeared in the 2nd half of 2000, mainly as a result of the sharp decrease of nickel quotations, continued through the main part of 2001 in the wake of a weaker global economic outlook, a fall in consumer confidence in Europe and relentless de-stocking process by distributors.

Nickel: Monthly Development of Quotations in 2001 (US$/tonne)



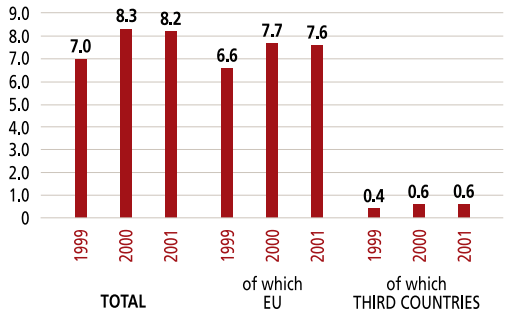
Source: Metal Bulletin

The contraction in demand was particularly evident for stainless steel flat products on the EU market with a drop of 5.5%, year-on-year. Higher exports to third countries, however, especially of hot rolled coil, almost maintained the total performance of flat products as unchanged, compared with the previous year. In long products, EU apparent consumption decreased by 1.8% and total EU producers' deliveries decreased by 1% in 2001 compared to the year 2000.

The outlook at the beginning of year 2002 was more positive due to the combination of the following factors:

- Low inventories in the market;
- Better underlying economic prospects;
- A steady rising trend in nickel prices.

Alloy Engineering, Tool and High Speed Steels: Development of Deliveries (million tonnes)



Source: EUROFER

Alloy engineering, tool and high speed steels

The year 2001 was a year of net contrasts for the alloy steels industry. Whilst activity levels and apparent consumption remained fairly high in the EU during the first half of 2001, the uncertainties affecting the global economic outlook, the deceleration of growth in investment and the downturn in consumer confidence started to impact negatively on demand for alloy engineering, tool and high speed steels as from September.

New order bookings decreased substantially in the 4th quarter of the year, the mechanical and engineering industries being the most affected by this market deterioration. With a world-wide slowdown in car production, apparent consumption is not expected to recover until the second half of 2002, when the market may be better oriented.

Engineering, Tool and High Speed Steels Deliveries	**- 0.3%**
of which to EU markets	- 4.7%
of which to export markets	+ 17%

Crude Steel Production

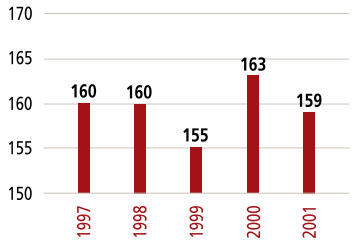
As a consequence of the weakened level of deliveries within the EU and into third countries, crude steel production started to decrease in the second quarter of 2001. Due to the accelerated destocking process in the second half of the year, crude steel production was reduced more sharply.

For the year as a whole, crude steel output decreased by 2.5% (159 million tonnes) in the EU; however, this area remains the world's largest producer.

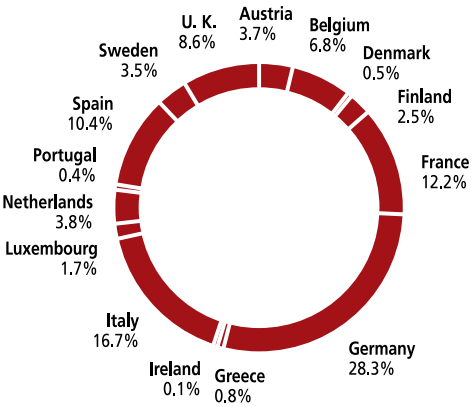
World-wide steel production showed, at 844 million tonnes, a slight reduction of 0.4%. The decreasing outputs in most regions of the world were contrasted with an increase of 17.3% in China, reaching a production level of 149 million tonnes in 2001.

EU Crude Steel Production

(million tonnes)



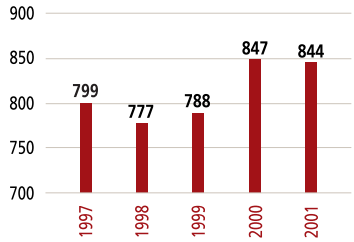
(Geographical Breakdown)



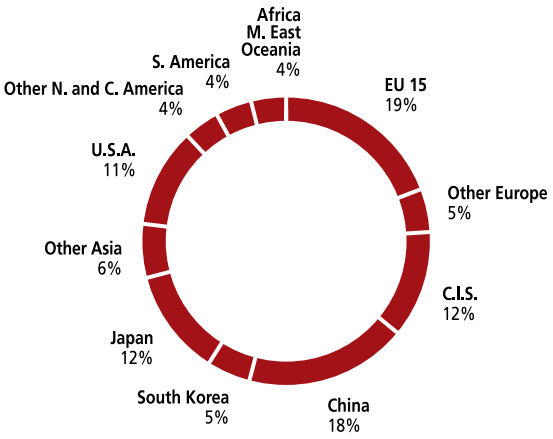
Source: EUROFER

World Crude Steel Production

(million tonnes)

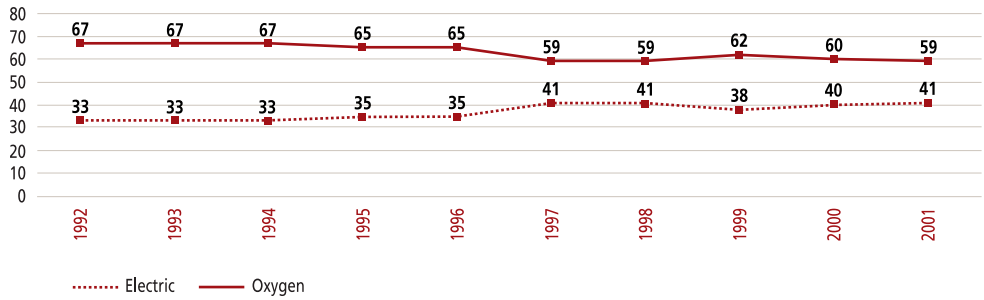


(Geographical Breakdown)



Source: IISI

EU Crude Steel Production by Process (in %)



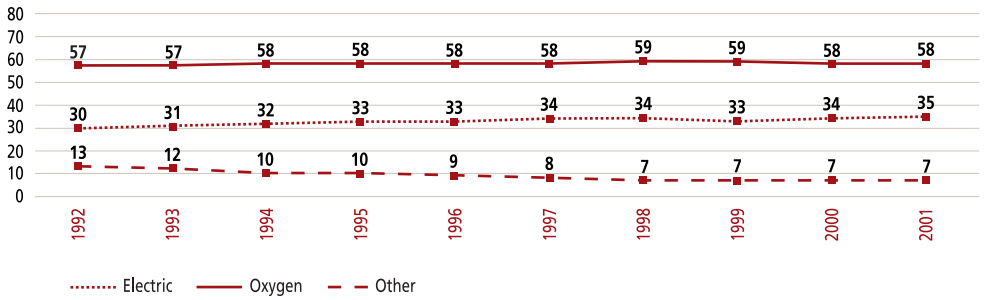
Source: IISI

EU Crude Steel Production (million tonnes)

	2000	2001	01/00 (% changes)
Austria	5.7	5.9	3.5
Belgium	11.6	10.8	-6.9
Denmark	0.8	0.8	0.0
Finland	4.1	3.9	-4.9
France	20.9	19.4	-7.2
Germany	46.4	44.8	-3.4
Greece	1.1	1.3	18.2
Ireland	0.4	0.2	-50.0
Italy	26.4	26.5	0.4
Luxembourg	2.6	2.7	3.8
Netherlands	5.7	6.0	5.3
Portugal	1.1	0.7	-36.4
Spain	15.9	16.5	3.8
Sweden	5.2	5.5	5.8
United Kingdom	15.3	13.6	-11.1
Total	**163**	**159**	**-2.5**

Source: EUROFER

World Crude Steel Production by Process (in %)



Source: IISI

World Crude Steel Production (million tonnes)

	2000	2001	01/00 (% changes)
World	**847**	**844**	**-0.4**
Europe	**210**	**205**	**-2.4**
of which EU 15	163	159	-2.5
C.I.S.	**98**	**98**	**0.0**
of which Russia	59	56	-5.1
Ukraine	31	33	6.5
Asia	**331**	**349**	**5.4**
of which China	127	149	17.3
Japan	106	103	-2.8
South Korea	43	44	2.3
North and Central America	**135**	**120**	**-11.1**
of which USA	102	90	-11.8
South America	**39**	**37**	**-5.1**
Africa, Middle East and Oceania	**34**	**35**	**2.9**

Source: IISI

TRADE POLICY

There was an exceptionally strong surge of imports in 2001, that, particularly in the first half of the year, again put the European market under pressure.

EUROFER :

- **Urged** the European Commission to begin, or to intensify, consultations with the countries involved in order to advise them of EUROFER concerns about the market situation. These consultations, while preserving the rights of our trading partners to free market access, and respecting our obligations under the WTO, would nevertheless provide an opportunity for a constructive dialogue with the aim of avoiding trade action by the industry. In this respect discussions were held with a great many countries.

- **Continued its limited use of statutory instruments to counter unfair trade cases where necessary** EUROFER files anti-dumping and countervailing duties (CVD) cases filed is tiny relative to other large importing countries. It recognises that the use of these trade policy instruments should be a last resort, not to be used, as they are by others, in a disproportionate manner in order to close the market. In 2001, therefore, despite record and rising import levels, EUROFER filed only one new anti-dumping case (against imports of hot rolled coil from 6 countries) and filed a request for a review of existing measures on hot rolled coil against two countries. Both requests were accepted by the European Commission and the investigation and review are ongoing.

- **Welcomed preparations for new bilateral agreements with Russia, Ukraine and Kazakhstan** which offer a striking contrast to the methods used by the United States in handling dialogue with its trading partners. The three-year extension of the current 5-year agreements with Russia, the Ukraine and Kazakhstan are good examples of constructive means to deal with the problems being faced by economies in transition. This type of bilateral agreement, structured to meet specific bilateral problems, fits well within the multilateral system and provides an appropriate basis, for a limited period for our trade relations with these countries. It offers them guaranteed access to our markets, unhindered by the mass of trade actions they face elsewhere, and therefore permits them to establish the commercial relations with customers and the ties with European producers that will eventually integrate them fully into the European market. At the same time, it offers a measure of security to EU producers from the risk of import surges which the still weak domestic consumption/capacity ratio in these 3 countries represents. It therefore seems to EUROFER that the solution adopted by the EU is the most equitable and balanced and, from a trade point of view, the most pragmatic solution to the problem which their industrial transformation is posing. It is certainly a more appropriate response to trade issues than the closing of markets.

- **Deplored President Bush's decision to initiate a safeguard investigation on most steel product imports into the United States.** EUROFER stressed that the recurring difficulties of parts of the United States steel industry result primarily from their unresolved structural problems more than from imports. Indeed, if imports were the major cause of the United States steel industry's problems, then the European steel industry, which was confronted with an even stronger surge of imports, should be in an even worse situation than their United States counterparts!

1996-2001 EU and USA Imports (Kt/month)

	IMPORTS EU			IMPORTS USA		
	Metric tons	Short tons	Variation	Metric tons	Shorts tons	Variation
1996						
Total Steel Mill Products	**1198**	**1321**		**2228**	**2456**	
Semis	174	192		569	627	
Total Steel Mill Products less Semis	**1024**	**1129**		**1659**	**1829**	
1997			**1997/1996**			**1997/1996**
Total Steel Mill Products	**1365**	**1505**	**+13.9 %**	**2385**	**2629**	**+7.0 %**
Semis	205	226	+17.8 %	481	530	-15.5 %
Total Steel Mill Products less Semis	**1160**	**1279**	**+13.3 %**	**1904**	**2099**	**+14.8 %**
1998			**1998/1997**			**1998/1997**
Total Steel Mill Products	**1951**	**2151**	**+42.9 %**	**3169**	**3493**	**+32.9 %**
Semis	298	328	+45.4 %	513	565	+6.7 %
Total Steel Mill Products less Semis	**1653**	**1822**	**+42.5 %**	**2656**	**2928**	**+39.5 %**
1999			**1999/1998**			**1999/1998**
Total Steel Mill Products	**1903**	**2098**	**-2.5 %**	**2737**	**3017**	**-13.6 %**
Semis	389	429	+30.5 %	649	715	+26.5 %
Total Steel Mill Products less Semis	**1514**	**1669**	**-8.4 %**	**2088**	**2302**	**-21.4 %**
2000			**2000/1999**			**2000/1999**
Total Steel Mill Products	**2283**	**2517**	**+20.0 %**	**2897**	**3193**	**+5.8 %**
Semis	478	527	+22.9 %	647	713	-0.3 %
Total Steel Mill Products less Semis	**1805**	**1990**	**+19.2 %**	**2250**	**2480**	**+7.8 %**
2001			**2001/2000**			**2001/2000**
Total Steel Mill Products	**2282**	**2515**	**-0.0 %**	**2299**	**2534**	**-20.6 %**
Semis	415	457	-13.2 %	487	537	-24.7 %
Total Steel Mill Products less Semis	**1867**	**2058**	**+3.4 %**	**1812**	**1997**	**-19.5 %**

Sources: EU and USA Customs

In fact, the crisis in the United States essentially affects the integrated sector, as a result of their long-delayed restructuring, while mini-mills have mostly been suffering from the downturn in the market. Further, United States imports had already declined substantially from their peak in 1998 and were continuing to decrease when the safeguard investigation was launched, contradicting the WTO Safeguard Agreement requisite that a product "**is being imported...** in such increased quantities... as to cause or threaten to cause serious injury to the domestic industry". In these circumstances, EUROFER warned that it was doubtful that the criteria established by the WTO Safeguard Agreement could be met and that the burden of the United States steel industry's structural adjustment should not be unfairly shifted to the United States trade partners, thus seriously disrupting world steel trade.

However, EUROFER also :

- **Noted with interest** the intention of President Bush to address, together with other governments, the problem of artificially maintained inefficient capacities and to seek a strict multilateral discipline eliminating market-distorting state aid in the steel sector.

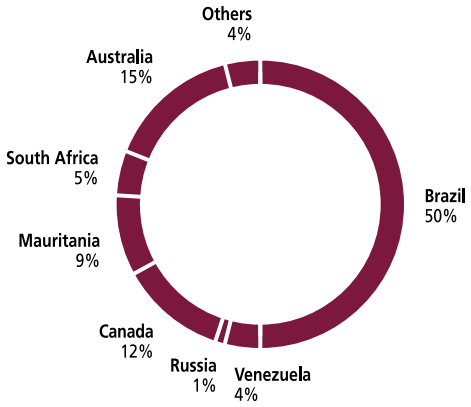
- **Supported the process started at the OECD by the High Level Meeting on steel** that took place on 17-18 September in Paris. EUROFER found it encouraging that both government and industry representatives concurred that the continued operation of uneconomic or inefficient capacity is a major problem in the steel market; and that governments agreed to (a) **identify the facilities unlikely to be economically viable**; (b) **identify the principal economic, social, and regulatory issues that are impeding or could impede closure/reduction of this capacity**, and (c) **consider policies to facilitate the closure/reduction of inefficient facilities via market forces.** Furthermore, governments also concurred that they should address the following issues: (a) **subsidies and related measures provided by national and local governments that promote investment in new facilities;** (b) **assistance (including state aid and/or subsidies from national and local governments) that sustains failing enterprises;** (c) **measures and regulations which impede fair competition and trade**, and (d) **anti-competitive behaviour that distorts markets**[1]. Indeed, EUROFER has long been convinced that the globalisation of the steel market requires that stronger international discipline, in particular concerning subsidies, be implemented to foster the definitive closure of uneconomic capacities and create a level playing field in the world steel market. At the same time, governments should take the necessary steps so that it is no longer cheaper in the short run to continue operating uneconomic facilities than to close them, and to support definitive closures through assistance with the associated social and environmental costs.

- **Condemned the United States International Trade Commission's recommendation to virtually close the United States steel market to imports from the rest of the world** as totally unjustified, and insisted that its implementation would constitute a violation of WTO rules. Indeed, the EU warned that, in such cases, it would immediately launch a complaint at the WTO and called on President Bush "to choose measures that favour market adjustment and restructuring, not market closure".

- **Began to prepare a request for safeguards for Europe**, as a consequent and precautionary move, recognising the severe threat which the closure of the United States market would represent for the EU steel market, but with the hope that such a request would not be necessary. Sadly, the extreme nature of the safeguard measures adopted by the United States in 2002 demonstrated that these preparations in Europe were timely and that the critical circumstances created by the United States made the adoption of provisional safeguard measures by the European Commission unavoidable.

[1] Sentences in bold are quoted from OECD's report on the "Conclusions of High Level Meeting on Steel; 17-18 September 2001".

EU Receipts of Imported Iron Ore



Source: Eurostat

Iron Ore

Prices for iron ore increased further in 2001 with the FOB reference price for fines moving up by 4.3%. The lump premium remained broadly unchanged and the pellet premium fell, although prices of pellets increase on the basis of the increase for fines. This was despite a sharp reduction in production levels at the end of the year with pig iron production down by 5.6% and crude steel by 2.5%.

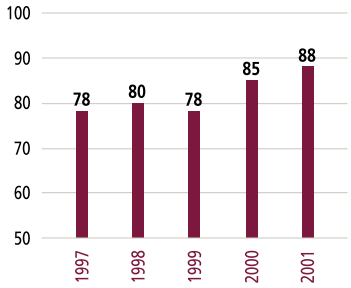
Global seaborne traded iron ore fell slightly to 450 million tonnes from 455 million tonnes in 2000. There were no problems for EU producers in sourcing material despite the arrival in force of the Chinese steel industry onto the world markets for iron ore, expanding their imports by 17 million tonnes to 92 million tonnes in 2001.

In terms of deliveries, last year saw a sharp fall in the world-wide consumption of pellets which affected especially the pellet supplies in Canada and Sweden while, on the back of the increase to China, supplies of fines from Brazil rose strongly.

Coal

Benchmark Prices in the EU rose by 7% in 2001. Strong internal demand in the United States stoked by rising oil prices severely curtailed tonnage of steam coal for export. The perception of tightness in the market drove prices up, particularly for coal from the United States. In the course of the year, with the reversal of the market for electricity, the supply situation changed with a consequent impact on prices.

Scrap: EU Consumption (million tonnes)



Source: Eurostat

Scrap

Scrap prices remained fairly stable in 2001, moving within only a narrow range. This was nevertheless in the context of fairly substantial volumes – demand for scrap was high. The market for long products was particularly strong, with 2001 being yet another strong year for construction in particular, apart from in eastern Germany. Electric arc furnace (EAF) production levels were 65 million tonnes, unchanged from the previous year. However, the share of EAF in total steel production rose to 41.1%, up from 39.7% in 2000. This reflected the drop in basic oxygen furnace (BOF) production levels at the end of the year as the market for flat products moved down and, in contrast, the relatively sustained demand for long products which underpinned EAF production.

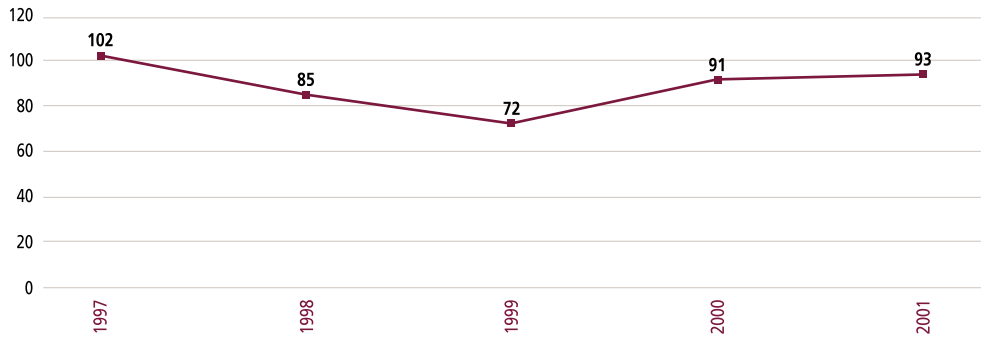
Supply remained unproblematic with large import availability and little pressure from export markets. The Asian market in particular was relatively quiet. Some tensions emerged periodically as countries in the Black Sea Region introduced various restrictive measures on scrap exports. The availability of scrap for import into the EU is now an important factor in price variations. Restrictions by countries such as Russia, the Ukraine, and Romania have a direct impact on EU imports, but also affect the ability of Turkey to source material from the Black Sea region, forcing them back onto the Rotterdam market. This has consequences for both supply quality and prices for European consumers. This was the case in mid-2001 when Turkey returned in some force to the European market for a short time.

In addition, some tension in supply has been experienced for specialty steel scrap due to the restriction by Russia of land crossing points for customs clearance. This issue was taken up by the European Commission at EUROFER's request and additional crossing points have been guaranteed in the new EU-Russia bilateral agreement which will come into force in 2002.

Scrap imports in 2001 amounted to 7.6 million tonnes.

Discussions are continuing between EUROFER, the European Ferrous Recovery and Recycling Federation (EFR) and the European Commission on the classification of processed scrap as a waste, with the aim on the industry side of achieving an amendment to the waste definition, or at least the identification of the point in the recycling process at which scrap could be considered as a secondary raw material.

Scrap (Demolition Quality)**: Prices EU Market** (€/t)



Source: EUROFER

Scrap: EU Trade Balance (million tonnes)

Source: Eurostat

TECHNOLOGY AND ENVIRONMENT

Research

ECSC Research

The ECSC Treaty will expire on 23 July 2002. Collaborative steel research and technical development under the ECSC continued to be highly successful up until the end: during 2001, a success rate of 47%, based on the number of proposals, was achieved.

After the expiry of the ECSC, and based on the resolution of the Amsterdam European Council in June 1997, the revenues of the ECSC reserves will continue to be used for a research fund for sectors related to the coal and steel industries. In 2001, the Member States adopted a formal decision regarding this "post-ECSC" situation, which was formulated in the guidelines to be applied for the technical management of the programme. It is the view of EUROFER that the present proposal is acceptable. Adoption of the guidelines is, however, subject to ratification of the Nice Treaty. This ratification was blocked by Ireland following a referendum.

There is a clear indication that the legal problems associated with this situation will be resolved in early 2002.

EU Framework Programme Research

As one of the most important industries in Europe, the steel industry wants to utilise an appropriate part of the available research funding of the EU Framework Programmes.

In 2001, the fourth and final call of the EU 5th Framework Programme for Research and Technological Development was made. Within the context of this final call, the steel industry made a concerted effort to obtain funding for steel-related research, and 11 out of 27 proposals that were submitted obtained funding. With the exception of the third call, the overall success rate of the steel industry in this 5th Framework Programme can be considered to be unexceptional. The number of submitted high quality proposals is still subject to improvement.

With the introduction of the 6th Framework Programme, which was adopted in 2001, new possibilities arose for the steel industry. Considerable effort has been made to look for new, large, breakthrough technologies, especially those with potential for high CO_2 reduction and increased energy efficiency, to be proposed for funding. This work will continue in 2002.

Thematic Network

EUROFER is the main contractor of the Thematic Network NEST (New Efficient Steel Technologies). The main aims of NEST are to contribute specifically to the competitiveness, quality, safety and environmental performance of the steel industry and the overall sustainability of the industry's products by increasing the extent and effectiveness of steel-related research, technical and process development and innovation. As the principal objective, durable links with the ECSC Steel Research and Technology Development activities should be established. It was therefore decided in 2001 to draft a booklet "Networking in European Steel Research" which will be issued during 2002 **(see http://www.eurofer.org/publications/index.htm)**.

NEST was formally established on 1 January 1999 and has had several cluster meetings and workshops during 1999-2001. For administrative reasons, the European Commission granted an extension until the end of June 2002. A highlight in 2001 was the April workshop on **"Welding Technologies"** held in Brussels. As NEST comes to a close, it can be concluded that all participating parties have found this form of information exchange between related projects very useful.

Standards

Steel standardisation work is performed in the European Coordinating Committee for Iron and Steel Standardisation (ECISS/COCOR) under the European Committee for Standardisation (CEN). A permanent task of the EUROFER Standards Committee is to monitor the work programme of ECISS and to influence the decisions being made.

In 2001, the terms of reference of the EUROFER Standards Committee were reviewed. It was decided that the Standards Committee should act as an independent steel body that should look at standardisation in a broader perspective, intensifying the relationship with research and environmental considerations. Standards Committee members should be open to discuss the political implications of certain potential decisions and to be able to prepare pro-actively for emerging issues. This will be achieved by creating a network and liaisons with other stakeholders for the exchange of information within the field of steel applications. Important roles are foreseen in exchanging information with the enlargement countries and in communication with downstream users of steel.

In the environmental standardisation field, the CEN 264 WG 17 on fugitive emissions continued work on a standard for the quantification of fugitive emissions in the industry. The process is currently at the stage of identifying approved quantification methodologies, and Reverse Dispersion Modelling looks promising for quantification of fugitive dust emissions.

Environment

Integrated Pollution Prevention and Control (IPPC)

The IPPC Directive (Council Directive 96/61/EC), one of the most important existing environmental directives, was adopted in 1996. The Directive is already in effect for new installations and will take effect for existing installations by October 2007. The European steel industry is subject to the provisions of this Directive and will be required to ensure that its operations, including energy efficiency, conform with Best Available Techniques (BATs).

During the years 1997-2001, the European steel industry participated in information exchange working groups, organised by the European Commission for the purpose of developing BATs Reference Documents (BREF). These BREFs contain detailed technical descriptions, including key consumption and emission values that can be consistently achieved using BATs. The BREFs for "primary and secondary iron and steel making" and for "ferrous metal processing" – covering the entire blast furnace and EAF steel making routes up to hot-dip galvanising – were completed in 2000. Both documents are available at **http://eippcb.jrc.es/pages/FActivities.htm.** Although these documents are very good examples of well written and up-to-date BREFs, the European Commission has scheduled their revision for 2003. EUROFER is arguing strongly against early revision based on the lack of necessity and huge amount of manpower required to do the job.

The last relevant vertical BREF that is not yet finalised is the BREF for Metal Surface Treatment. In addition, the BREF on Surface Treatment of Substances, Objects or Products using Organic Solvents, which may be of some relevance to the steel industry, is yet to be finished.

Apart from those particular BREFs, during 2001, EUROFER continued to be involved with BREFs on horizontal, cross sectoral issues like economic and cross media effects, cooling water, monitoring and storage of bulk materials. There is also a certain tendency to approach issues like NO_x abatement in a horizontal way. EUROFER opposes these developments. Horizontal BREFs, by definition, do not take an integrated approach and it will only confuse permitting authorities that have to consider several horizontal BREFs instead of one vertical BREF.

The confusion that exists in several Member States on implementation of the IPPC Directive was not clarified during 2001. BREF documents are used in different ways by authorities that have different objectives. If IPPC is correctly implemented, the BREFs will be used as key sources of information for the determination of permit conditions for the construction of industrial installations. In this respect, EUROFER wishes to emphasise that local permitting authorities should not automatically take reference values in BREFs as limit values without regard to local conditions and the likely costs and benefits of any proposed measures, as is required under the IPPC Directive.

Emphasising the integrated approach of IPPC, there is a strong argument to suggest that no other environmental measures need to be applied to the sector. However, if other measures are considered necessary, it is crucial that the relationships between IPPC and any other measures for achieving environmental objectives are clear, are subject to cost-benefit analysis and ensure maximum flexibility within that context.

Greenhouse Gas Emissions, Climate Change and Emission Trading

In 2001, the EU continued to play a leading role concerning climate change despite the failure of the United States to ratify the Kyoto Protocol and growing criticism by other major players outside the EU. EUROFER remains concerned that this unilateral European approach may impact negatively on its members' competitiveness.

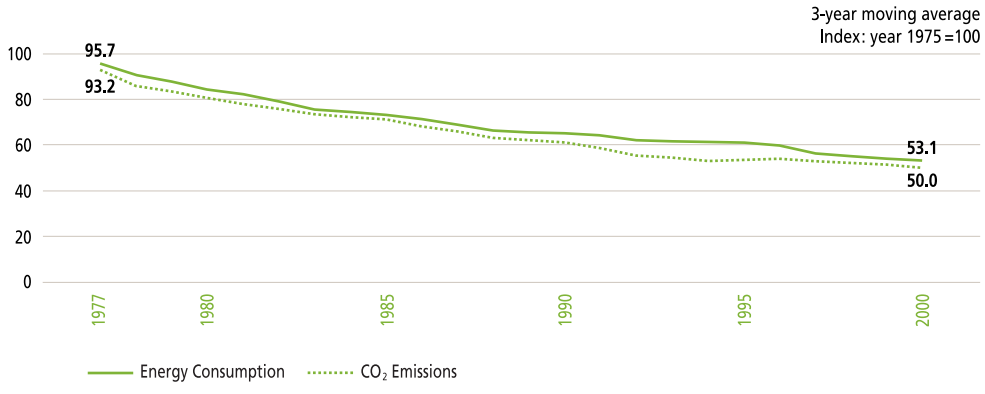
The European Commission activities regarding climate change policy are coordinated in the European Climate Change Programme (ECCP). A large stakeholder consultation on ECCP concluded with a conference in July 2001. Just before the conference, a European Commission proposal for Europe-wide emission trading was forwarded for inter-service consultation but was withdrawn in the face of heavy opposition. The ECCP resulted in a number of proposed measures and policies.

In September 2001, the European Commission organised two major workshops to continue stakeholder consultation. They drew attendance from industry, NGOs and Member State representatives. In these workshops, the EUROFER position was put forward. To make a more forceful impact, a coalition was formed with other energy intensive sectors including the paper and the cement industries. In addition, in September, the European Commission presented a new draft of the emission trading proposal. Crucial in this proposal was the possibility for Member States to "opt-out" of the emission trading system.

After serious internal struggle, the proposal was finally adopted without the "opt-out clause". This final proposal was forwarded for a co-decision procedure in the European Parliament and Council on 23 October 2001. Discussions are ongoing in 2002 and EUROFER will follow this subject very closely. The steel industry is very concerned that it will suffer detrimental effects if this proposal is not significantly amended.

It is very clear that we are entering a world of "carbon constraint". It is still completely unclear how the future burden to reduce CO_2 emissions will target the steel industry. The unpredictable growth of other CO_2 sources such as traffic and domestic activities, puts our industry under pressure to make efforts that can no longer be considered cost-effective. In fact, the steel industry has made major progress in reducing greenhouse gas emissions in the past. The diagrams below show that there has been a continual improvement in energy efficiency and reduction of specific CO_2 emissions in the EU steel industry between 1970 and 2000.

EU Steel Industry Energy Consumption per Tonne of Finished Steel
EU Steel Industry CO_2 Emissions per Tonne of Finished Steel



Source: Eurostat

The graph clearly shows that the theoretical limits for reducing energy consumption according to the laws of physics are now being approached. Further reductions of CO_2 emissions are becoming progressively more difficult and costly to achieve, particularly as a large part of the steel industry's consumption of fossil fuels is used as a reductant, not as an energy source, and so cannot be reduced.

The European Parliament and Council have decided that, once the Kyoto protocol is ratified, individual contributions to the reduction of CO_2 emissions in the Member States will be achieved by so-called "burden sharing". Each Member State has to meet its own, individually defined, target. Several Member States have already developed schemes to meet their targets. As was envisaged by EUROFER, the new proposal for Emission Trading, referred to above, is not compatible with these national initiatives. EUROFER strongly advocates, therefore, that the possibility to "opt-out" from Emission Trading should be re-introduced.

The EUROFER key messages on Emission Trading are therefore:

- **Participation should be voluntary, not compulsory, at both Member State and company level.**
- **It is essential that any European Emission Trading scheme does not damage competitiveness; that administrative costs are minimised; liquidity is maximised; that the scheme does not conflict with national measures already in place.**

A very important factor to prevent damage to competitiveness is that all allowances to emit CO_2 should be issued free of charge. If it were decided that allowances should be allocated by means of auctioning, this would damage the energy intensive industries in Europe very severely. For the steel industry, the best way to allocate allowances is by benchmarking; thus taking into account early action and avoiding distortion of competition. Targets should be specific, expressed as tonnes of CO_2 per unit of output.

For the other Kyoto instruments – Joint Implementation and Clean Development Mechanisms – details of how they might work are not yet available. However, they do have the potential to provide industry with flexibility via selection of the appropriate mix in order to contribute to greenhouse gas reduction in the most economical way, providing that no cap is placed on the proportion of commitments that can be met by each instrument. EUROFER therefore supports their further evaluation through extensive consultation between the European Commission, national governments, industry, and other interested parties and will actively participate in any future meetings of the ECCP working group on these subjects.

In the case of CO_2 becoming a commodity to be traded, it is essential that emissions are calculated in the same manner and with the same accuracy. EUROFER is in close contact with IISI to develop a new uniform calculation method for CO_2 emissions in the steel industry.

Energy

A proposal for a Directive restructuring the Community framework for the taxation of energy products was submitted in 1997 and has been intensively discussed since then. For various reasons, agreement has never been reached. In early 2002, the Spanish Presidency submitted a compromise proposal, based on earlier work during the German, Swedish and Belgian Presidencies, that is currently under discussion. Crucial for the steel industry in this present proposal is the exemption from taxation given to chemical reduction, electrolytic and metallurgical processes for dual use of electricity or "energy products" (e.g. coal, oil) as both raw materials and heating fuels.

A simple "carbon energy tax" is quite inappropriate for the steel sector for numerous reasons.

- Application of an energy tax applied to industries that are going to be subject to other emission reduction measures would be counterproductive.
- Its effect on the industry would be to push up input costs, not reduce unit energy consumption. Production processes are already very energy efficient and further improvements would be very difficult to achieve economically.
- In the short term, the weakening of EU steel industry competitiveness would result in loss of exports and in increased imports. In the longer term, relocation of steel production to countries outside the EU not subject to such a cost burden could occur. In both cases, the likely undesirable result would be an **increase** of global CO_2 emissions.
- By reducing the profitability of the sector, such a tax would reduce the funds available for investment in research and development and in the projects necessary for improving energy efficiency and making other environmental improvements. Another potential consequence would be efforts made by steel companies to reduce employment in the sector in order to stay competitive.

Air Quality

In the 6th Environmental Action Programme "CAFE", the acronym for Clean Air for Europe, was proposed as the European Commission's new thematic approach to the future Air Quality Policy in Europe. The goal of CAFE is to make an in depth review of existing legislation, such as the Air Quality Framework and National Emission Ceilings Directives. Apart from general air quality-oriented objectives, CAFE has the following specific objectives relevant to the steel industry:

- To support the implementation and review the effectiveness of existing legislation, in particular the air quality daughter directives, the decision on exchange of information, and national emission ceilings as set out in recent legislation; to contribute to the review of international protocols and to develop new proposals as and when necessary.
- To ensure that the sectoral measures that will be needed to achieve air quality and deposition objectives cost-effectively are taken at the relevant level through the development of effective structural links with sectoral policies.

This thematic approach is scheduled to lead to policy guidance on air quality by the fourth quarter of 2005. Although the principle of a thematic approach is fully supported, EUROFER fears the complexity and lack of transparency of the process. EUROFER is contributing to collaborative industry advocacy activities, particularly through UNICE.

The **Air Quality Framework Directive** (Council Directive 96/62/EC) provides for daughter directives for the regulation of specific pollutants. The first daughter Directive, covering SO_2, NO_2, particulate matter and lead, was adopted in 1999. The second daughter Directive on benzene and carbon monoxide was adopted in 2000. Work is ongoing concerning the third daughter Directive on ground level ozone and the fourth one on air-quality limit values for poly-aromatic hydrocarbons (PAH), cadmium, arsenic, nickel, and mercury.

The existing draft proposal for the fourth daughter Directive would create huge problems for the carbon and stainless steel production industries because of so called "hot-spots". In these hot-spots, marginal contributions to background values in the immediate surroundings of production facilities could create local exceedences of the proposed stringent limit values for PAH (carbon steel) and nickel (stainless steel). This will be the case even if these facilities are equipped according to BAT (Best Available Techniques). The industry is therefore challenging the need for some of the proposed mandatory limits, as properly applied current legislation (e.g. IPPC) will provide adequate control. However, the Air Quality Framework Directive does make provision for requiring measures beyond BAT if these are necessary for compliance with limit values set in daughter Directives. A formal proposal for a 4th daughter Directive was expected in November 2001, but it was postponed to allow the European Commission to order a study on the cost/benefit of measures beyond BAT. The study has not yet been commissioned and the likely timetable for the proposal is therefore unclear.

EU Environment Ministers reached a Common Position in June 2000 on a proposal for a **Directive on National Emission Ceilings (NEC).** However, the proposal has still not been formally adopted by the European Council and Parliament. In the Common Position, the environmental objectives proposed by the European Commission in relation to emission ceilings go beyond those agreed in the Gothenburg protocol on Long Range Trans-Boundary Air Pollution. The European Commission's proposal would set upper limits for each Member State for total emissions in 2010 of the four pollutants responsible for acidification, eutrophication and ground-level ozone pollution (SO_2, NO_x, VOCs and ammonia), but leave it largely to the Member States to decide which measures to take in order to comply.

The emission ceilings in this proposal are considered to be very strict. EUROFER fears that the steel industry will be targeted relatively severely because stationary industry sources are easy to identify relative to other sources. EUROFER supports the common industry view that the estimated and uncertain benefits do not justify the extremely high costs for the measures required to reduce the emissions to the proposed limits.

One of the most important issues within CAFE is the future policy towards **particulate matter**. Present air-quality limit values for PM_{10} are very stringent and are exceeded in numerous locations. EUROFER observes with growing concern the discussion on the presumed negative health effects of even smaller particulates. Regardless of the scientific basis on which the risk assessments are built, future reduction of the contribution by the steel industry can only be minor. Almost all relevant sources are equipped with, mostly "end-of-pipe", dust abatement technology. It is hard to imagine how dust emissions could be further reduced. Additional requirements would therefore inevitably lead to the closing down of certain activities crucial to the steel industry.

Waste, Landfill Recycling and Product Policy

Scrap

Great improvements have been made by the steel industry when it comes to the **recycling of steel scrap.** World-wide, the use of scrap as a raw material for steel making results in a saving of 600 million tonnes of iron ore and 200 million tonnes of coke each year. This makes steel one of the most recycled bulk materials in the world. In fact, all of the scrap now emerging on the world market is recycled. Further increase in the recycling rate is limited only by the availability of scrap. With the future legislation on Climate Change in mind, the popularity of using scrap could further increase because scrap-based steel making emits significantly less CO_2.

Although the recyclability of steel scrap is undisputed, the unclear status of scrap in the EU may hinder its recycling. The issue could be described by the question: **"When does scrap cease to be waste?"** If scrap, that is ready to be put in the converter or furnace, continues continues to be classified as waste, there are significant administrative burdens that cause additional costs. Unfortunately, due to a change in tasks of the responsible officials within the European Commission, the focus on this issue has diminished. EUROFER is pushing the European Commission to prevent the scrap issue being dropped from its agenda.

Finally, during 2002, UNICE will officially launch its proposal for an amendment to the definition of "waste". It is intended that a more accurate definition of what should be considered as waste should be introduced. Materials that meet a certain standard or specification might no longer be considered as waste. EUROFER has actively contributed to the proposal, especially those paragraphs that refer to standards and specifications, in order to orient the proposal towards the secondary material markets and to ensure that it is as flexible and useful to the steel industry as possible.

Slag and Landfilling

Within the context of **Council Directive 1999/31/EC on the landfill of waste**, the European Commission is still carrying out the provision foreseen in article 16, i.e. to adapt the Annexes, via a Technical Adaptation Committee (TAC) of Member State representatives chaired by European Commission officials. A particular issue under discussion that is of relevance to the steel industry are the criteria that define materials that can be put into inert landfill without further testing. Such materials will appear on a "positive list".

Large quantities of valuable residual products are generated in steel making. Slag, recycled to a high degree, is a good example. Slag has been used for a long time with very good results for many applications without any unfavourable effects on the environment. These include road construction, railroads, landscape restoration, hydraulic works, and even soil restoration for organic farming. Many other potential uses are being studied. Nowadays, from a total annual slag production of around 40 million tonnes, roughly 10% of unprocessed slag has to go to landfill due to market conditions.

However, restrictions under various international agreements hamper its free trade. An increase in the bureaucratic load, together with additional technical and analytical costs and, in the extreme case, a ban on the disposal of slag as inert landfill, would create huge image problems and endanger the future of well-established markets for this product.

Bearing in mind that unprocessed slag is, apart from the steel, the same material as processed slag, there will be no substantial differences between the environmental behaviour of unprocessed and processed slag. In 2001, EUROFER provided a position paper that expressed the view that unprocessed slag should be classified in the same way as processed slag, i.e. as inert material. In the opinion of EUROFER, two new items should be added to the positive list: "Unprocessed slag" and "Waste from the processing of slag". If slag is not included in the positive list, it will endanger the future of the entire slag market and, paradoxically, could increase the rate of landfilling. In the TAC procedure, the opinion of individual Member States is key to persuading the European Commission to accept revisions. It is therefore necessary for EUROFER to ensure that this is addressed with both Environment and Industry Ministries in each Member State.

The general rule for waste acceptance for landfill is based on a basic characterisation, a compliance test and an on-site verification. It is very important that the testing methods are representative for the actual landfill circumstances. The environmental risk from waste in landfill arises from their leaching characteristics and not from their chemical composition. EUROFER supports use of results of a test based on leaching behaviour as a criterion for use of waste as landfill.

Revision of the Directive on Packaging and Packaging Waste

In relation to the packaging business, EUROFER cooperates closely with the Association of European Producers of Steel for Packaging (APEAL). Regarding the **revision of the Directive on packaging and packaging waste (94/62/EC)**, the key messages from APEAL were:

- No differentiated targets per material;
- No discrimination between materials (the Directive seems to be less stringent for some materials e.g. plastics);
- No target on composite materials.

During 2001, APEAL initiated actions to avoid unfair implementation of the Packaging Directive in some European countries that could endanger this important steel application (e.g. the Danish proposal to amend the previous can ban, and the German deposit system).

Revision of the European Waste Shipment Regulation

As a consequence of the approval of the OECD Council Decision C(2001) 107, amending **the Decision on Transboundary Movements of Wastes Destined for Recovery Operations, the European Commission decided to revise the European Waste Shipment Regulation (259/93)**. Several of the drafts proposed by the European Commission are more rigid than the regulation. EUROFER is supporting the position that, because of the more flexible approach adopted in the international arena via the OECD decision, the European Commission should not present a proposal involving a heavier bureaucratic load. An official European Commission proposal is scheduled for the summer of 2002.

Integrated Product Policy (IPP)

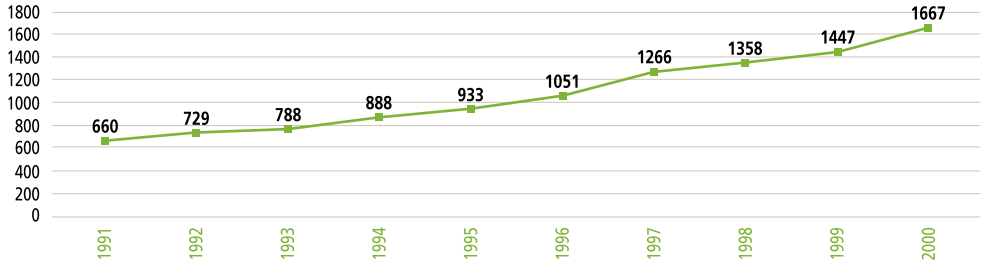
In February 2001, the European Commission published a Green Paper on IPP. This paper opened a debate on a "life cycle thinking" on products and services and the associated responsibilities that will clearly affect upstream providers of materials. The paper outlined seven tools to ensure "greener" European markets and to favour an environmentally fair playing field that would avoid hidden external subsidisation of polluting products and production processes. These tools are:

- Greening Public Procurement
- Environmental Product Declarations
- Environmental Management Systems (including product oriented EMS)
- Life Cycle Assessment (LCA) and Eco-Design Guidelines
- Product Panels
- Standardisation and the New Approach
- The Role of Economic Instruments

EUROFER participates in several of the stakeholder activities that have arisen from the IPP philosophy. The main important ideas for steel producers are to explore the good environmental behaviour of steel as a product, and to avoid unjust discriminatory measures, further taxation and misuse of LCA. A White Paper is expected in mid-2002.

EUROFER supports the principle of producer responsibility and suggests that a direct economic link should be established between each producer and the cost of recycling of the producer's own products. Economic incentives should be used rather than arbitrary recycling targets. This would create strong incentives for producers to design economically recyclable products. In this respect, it should be stressed that, due to the magnetic properties of steel, coated steels and most steel alloys, they can be easily separated from, for example, electronic equipment waste, and recycled in steel making processes.

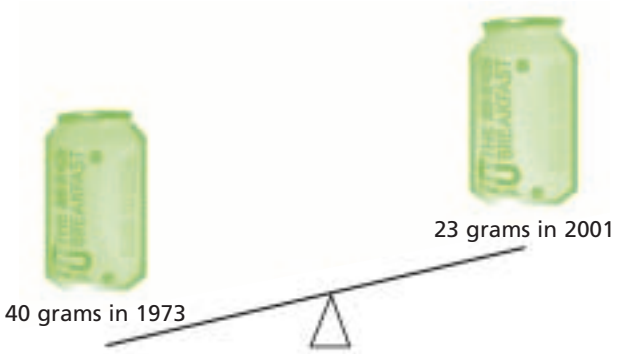
Steel Packaging Recycling in Europe ('000 tonnes)



Source: APEAL

An excellent example of the good environmental behaviour of steel products is provided by reference to steel beverage cans. Steel cans have been made progressively lighter thanks to product development allowing thinner tinplate. The average weight of a 33 centilitre steel beverage can body was reduced from 40 grams in 1973 to 23 grams in 2001, and there is a potential for further down-gauging! This development represents a significant step towards sustainability.

33cl. Steel Can Body Weight in Europe



Source: APEAL

Developments on new proposals for **Directives on Waste Electrical and Electronic Equipment (WEEE Directive)** and on **Restriction of the use of Certain Hazardous Substances in Electrical and Electronic Equipment (ROHS Directive)** together with the revision of the **End of Life Vehicle Directive (ELV Directive)** are from a single family of product oriented Directives that seek to promote re-use and recycling. That being so, EUROFER is pleased to report that, in response to industry pressure, the European Commission has acknowledged that this family of Directives should, wherever possible, demonstrate internal consistency.

Material databases

Because of the requirement of the ELV Directive, and other material related EU legislation, **the Automotive Industry is either implementing material databases**, or requesting comprehensive information on steel composition from suppliers. The proposed databases do not appropriately represent the characteristics of steel products, particularly as they tend to focus on non-metallic materials. The main concerns of the steel industry are the way in which this activity affects the entire chain of suppliers, and the possibility that the inevitable presence of trace amounts of unintentional elements in steels, coated products and engineering steels will lead to unjustified and unnecessary restriction of the use of these materials. It also creates severe difficulties for final tier suppliers of steel parts in providing the information requested by the carmakers. For these reasons, EUROFER is working to develop a common methodology that reflects better the particular properties of steels and steel products.

Zinc Risk Assessment

During 2001, the Dutch **rapporteur** for the zinc risk assessment presented a report to the European Commission and Member States in which it was indicated that, for virtually all environmental scenarios, there were unacceptable risks and that it would therefore be necessary to define and implement risk reduction measures. However, following considerable efforts made by industry to promote a more scientific approach, the Member States recognised that more research was needed, in particular to establish the bioavailability of zinc and to better define diffuse sources. EUROFER is contributing to the funding for the research programme.

In the current risk assessment report, a "worst-case scenario" has been applied (erroneously from the EUROFER point of view) for several of the environmental aspects of the risk assessment, partly because of a lack of comprehensive information from some of the plants. As a result, unacceptable risks to the local aquatic environment have been associated with the continuous galvanising industry.

On completion of the agreed research programme in Spring 2003, it is anticipated that a considerably more accurate assessment will be possible that will indicate no risk for most of the environmental scenarios. However, it cannot be guaranteed that the scenarios associated with continuous galvanising will escape from the perceived need for risk reduction. Therefore, it might be advisable for the industry to evaluate the situation in the local aquatic environment in the vicinity close to continuous hot dip and electro-galvanising lines in order to decide if any risk reduction measures do need to be considered.

Some of the conclusions of the 2001 risk assessment report were accepted by both the Member States and industry, particularly in relation to potential risks to human health. For example, it has been concluded that consumer exposure to galvanised objects does not lead to any risk to health. However, one human health area for which an unacceptable risk was defined in the report was in relation to exposure to fumes during the welding of galvanised steel. While EUROFER does not consider that there is a real risk to health from the normal welding activities associated with continuous galvanised steel, an evaluation should be carried out of exposure to fumes during the welding of zinc-coated steel.

Stainless Steel Hazard Classification and Chemicals Policy

The need to challenge the unjustified classification of nickel-containing stainless steels as being dangerous to human health (they are classified as being able to cause skin sensitisation and as a possible cause of cancer because this is the classification of metallic nickel) was the original basis for the formation of the EUROFER Stainless Steel Producers Group. EUROFER played a leading role in the industry activities that resulted in the European Commission's recognition that it may be necessary to define a specific method for the hazard classification of alloys and the setting up of a special Commission Working Group to advance this issue. EUROFER was also influential in the OECD activities on a globally harmonised system (GHS) for the hazard classification of mixtures, including alloys, under which a more rational and scientific approach to alloy classification was achieved than is currently the case in the EU.

However, during 2001, European Commission work on the hazard classification of alloys, including nickel-containing stainless steels, was subsumed within the context of work on the development of a wide-ranging new policy for the management of all chemicals, including metals, in the EU. This might have appeared to be a set-back for the alloys industry, but it is anticipated that the joint alloys industry activity undertaken during 2001 will result in an opportunity instead of a threat.

The intention under the proposed new legislation is to shift the "burden of proof", that a chemical and/or its use is safe, from the authorities to industry and to extend data requirements to downstream users. This will include manufacturers of alloys. Industry will be required to show that the manufacturing, use and end-of-life treatment of a particular chemical (e.g. nickel) are safe in respect of both human health and the environment: the new system will impose obligations on downstream users of metals to provide information about their uses and the associated risks. Under current legislation, there is no official means of bringing data on the properties of stainless steel to the authorities for consideration. The European Industry Metals and Alloys Classification Group (chaired by EUROFER), is now pursuing the policy that the manufacture of alloys represents a use of the relevant metals. Thus, the data that would be used for the risk assessment of an alloy should form a part of the risk assessment packages that will be required for the alloying elements, and, in the case of stainless steel, will show that there are no risks to health or the environment. The long-standing EUROFER policy that stainless steel should not be classified as "hazardous" should then be realised as a corollary.

Within the context of the New Chemicals Policy, it appears 99% certain that the principles of the GHS (see above) will be implemented in the EU. Following metals and alloys industry activity, the GHS allows use of data for the alloy itself as a basis for classification for all end-points, including cancer. This is not currently the case in the EU. Hence, the new EU system will allow the use of data on stainless steel, not just on nickel, for the assessment of the carcinogenic risk associated with stainless steel. The EUROFER initiated study on the carcinogenic potential of stainless steel will provide essential data for this purpose.

Discussions on the details of the research required on the carcinogenic potential of stainless steel led to agreement that there was a need for a pilot study to provide basic data before embarking on Phase 1 of the main programme (i.e. metal release studies). A research team at the Royal Institute of Technology in Stockholm has been contracted to conduct the pilot and Phase 1 studies. Work will commence in early 2002. This programme of work will transfer to the International Stainless Steel Forum (ISSF) during 2002, but will continue to be managed by EUROFER, assisted by an ISSF support team.

The common perception that stainless steel welding fumes may cause cancer could adversely affect our case that stainless steel should not be classified as carcinogenic. EUROFER has been pro-active in helping to set up a cross-industry international research programme, to be conducted by The Welding Institute (TWI) in the UK, to obtain high quality exposure data. A report on Phase 1 of this programme was received in January 2002. However, the future of the project with TWI is currently not clear as it now seems unlikely that the original ambitions can be realised. EUROFER will instigate a meeting of the funding partners to discuss how to resolve the situation and obtain the data that are needed to remove the threat posed by welding to the hazard classification of stainless steel.

TRANSPORT

In September 2001, the European Commission adopted the White Paper **"The European Transport Policy for 2010, time to decide"**.

This document proposes an action plan to improve the quality and efficiency of transport in the EU: transport by rail suffers from bottlenecks and transport by road suffers daily from more than 7,500 km of congestion and 16,000 km of bottlenecks. A strategy to break the link between economic growth and transport growth, in order to reduce the pressure on the environment and prevent congestion while maintaining the EU's economic competitiveness, is also envisaged.

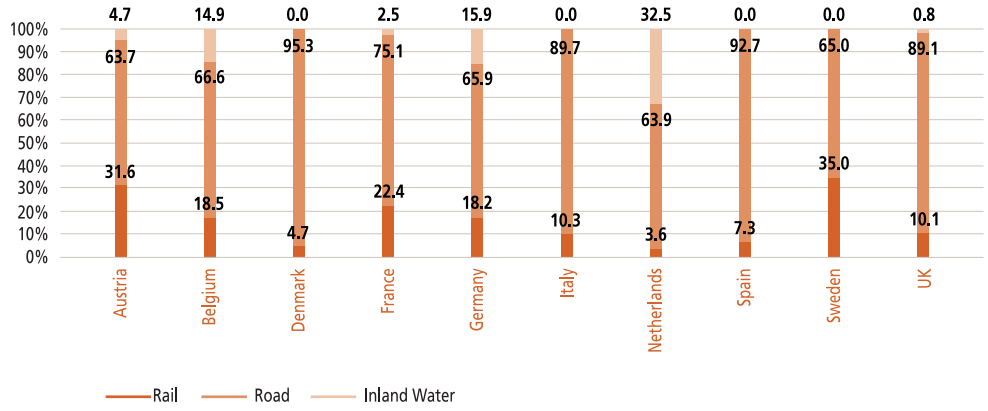
In particular, a first measure is intended "to shift the balance between modes of transport by 2010 by revitalising railways, promoting maritime and inland waterway transport and linking up the different modes of transport".

The steel industry, the main user of rail transport in the EU, considers that to achieve these ambitious objectives the following conditions are necessary:

- Continuation of the liberalisation process aiming at allowing access to national rail networks by private operators;
- Acceleration of implementation of interoperability among rail networks and equipment at the European level;
- Making the financial effort that will be essential to match the infrastructures with the traffic forecasts for the forthcoming fifteen years. This effort should be supported by a rigorous investment policy;
- A significant increase in investments in the infrastructure of inland waterways: transport by inland waterways is even more important than road transport for the steel industry. In addition, transport via inland waterways, especially smaller rivers and canals, would be much more competitive if the inland waterway charges in many countries were abolished or significantly reduced.

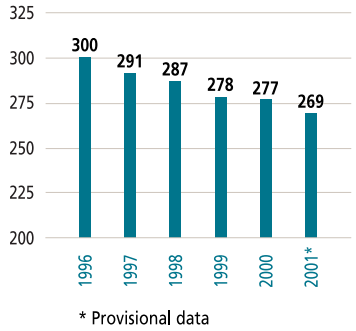
Furthermore, the cost of transport has a real effect on the competitiveness of certain enterprises: for steel companies, it amounts to 10-15% of turnover. It is thus vital to avoid rises in costs that could not be easily borne by enterprises that are confronted with increasing competition on a world scale. Transport costs remain higher in Europe than in other large competing areas such as the United States, where they have decreased by 45% since 1984. Additionally, compared to some Central and Eastern European Countries, road transport in the EU suffers from numerous taxes and restrictive legislation that has the potential to cause significant distortion of European competitiveness.

Transportation Mode: Market Share in some EU Countries (all industrial sectors)



Source: SNCF

Employees in the Iron and Steel Industry (in '000)



* Provisional data

Source: Eurostat

Evolution and Employment

The progressive rebalancing of the European steel industry's age structure continued steadily in 2001. About 35,000 new, younger workers were contracted, continuing the significant trend initiated a few years ago. However, this positive evolution did not offset all of the natural departures or the job losses caused by the continuing restructuring of the industry. Accordingly, the total ECSC workforce in the steel industry declined by about 8,000 people in 2001, compared with 1,300 in 2000 and 8,600 in 1999. This evolution reflects the effects of in depth restructuring in one Member State, as well as the first signs of a new development that will have more influence in the next few years: the increasing number of employees reaching retirement age.

The permanent pursuit of international competitiveness, and the continued restructuring and consolidation of the industry, signal that employment in the European steel industry will continue to decline in the future. However, the significantly increased numbers of natural departures expected in several countries during the next few years indicate that this will take place at a much lower social cost. This also suggests that the main issue will switch from ensuring good social conditions for those leaving the industry, to attracting a sufficient number of qualified and motivated people to the industry.

Creation of New Jobs in Regions Affected by Steel Industry Restructuring

Following the vote by the European Parliament of a budget line destined to favour the phasing-in, in the EU general budget, of activities financed in the framework of the ECSC, € 2 million were made available to fund a pilot project destined to support the creation of new jobs in regions affected by the industrial restructuring of the steel sector. EUROFER accepted the European Commission's invitation to implement this pilot project.

Accordingly, on 28 September 2001, EUROFER and the European Commission signed a contract creating a "guarantee fund" the purpose of which is to increase the availability of loan and equity financing for investment activity and job creation by SMEs operating in such regions. EUROFER is in charge of managing this "guarantee fund".

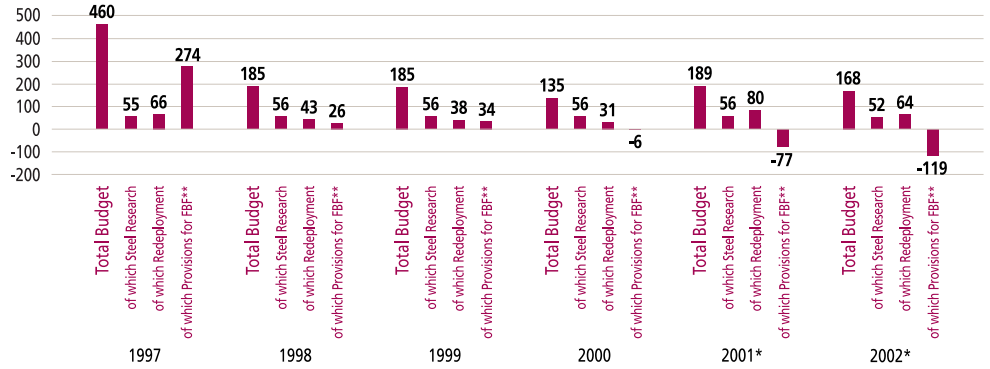
ECSC BUDGET

With the termination of the ECSC Treaty getting closer, it is pleasing that the phasing out of the ECSC budget has remained in line with the financial scenario proposed by the European Commission in its "Communication on the expiry of the ECSC Treaty – Financial activities", of October 1997. This has been achieved while continuing to give priority to ensuring optimum continuity of finances for social support (redeployment) and for collective research, thus meeting the main concerns of European steel companies and employees.

The provisional figures for the 2001 and 2002 budgets show total expenditures of € 189 million and € 168 million respectively. The increase with respect to the year 2000, observed in 2001 and 2002, is fully accounted for by the growth in social support (in particular, redeployment: + € 50 million in 2001, and + € 30 million in 2002; while the **"volet social"** for coal benefits from an increase of around € 10 million in both years). During these two years, € 80 million and € 64 million, respectively, have been earmarked for redeployment aid, as well as € 56 million and € 52 million for steel research.

Maintaining expenses at this level was possible until 2000 without drawing significantly from the "provision for future budgets". It is noteworthy that, in 2001, this provision contributed only € 77 million to the budget resources instead of the planned € 108 million. It is envisaged that this contribution will amount to close to € 119 million in 2002.

Evolution of the ECSC Budget – Main Chapters (M€)



* Provisional data
** Future Budget Financing

All figures represent realisations, except for 2001 and 2002

Source: European Commission

STATISTICS

Steel Statistics after 2002

With the expiry of the ECSC Treaty on 23 July 2002, the legal basis which enabled the European Commission to collect directly and publish statistics on iron and steel for the whole of the EU will disappear. However, it has been proposed that, through a specific Regulation of the European Parliament and Council, the ECSC statistical data collection will be continued unchanged up to the end of 2002 in order to have statistical data for the complete year 2002. This draft Regulation is currently being subject to the normal consultation procedures by the European and national authorities.

As from January 2003, a reduced set of official steel statistics will be collected by Member States:

- Production statistics for steel products will be collected on a monthly basis within the framework of the PRODCOM Regulation; some procedural issues are still subject to approval by European Commission services;
- Annual statistics on scrap consumption, energy, investments and capacities will be collected in a first instance for the period 2003-2009, based on a new legal act.

Throughout 2001, EUROFER had repeated consultations with Eurostat on these issues. Since future official statistics on steel will not cover all requirements of the steel industry, especially in terms of timeliness, EUROFER and its members continued working on the elements of a voluntary system to be implemented as from 2003 as an addition to the future official instruments.

Official Trade Statistics

In May 2001, after due consultation of data users in the steel industry, the EUROFER Statistics Committee submitted a full catalogue of proposals to the European Commission and Member States regarding the review of the Combined Nomenclature (product classification) used to record product trade statistics between Member States and with third countries. This set of proposals was well received by the European Commission, and is expected to be adopted without major changes in 2002 for implementation as from January 2004.

Similarly, at the end of 2001, the EUROFER Statistics Committee started reviewing the steel chapter of the Harmonised System, the trade classification used on a world-wide basis. This task is being developed in 2002.

EDIFER

EDIFER is the committee within EUROFER which develops solutions to meet the requirements of the steel industry in the field of Electronic Commerce Business to Business (B2B) and Electronic Data Interchange (EDI). EDIFER has been active in the development of user implementation guides of the EDIFACT standard messages for the European steel industry.

These user implementation guides cover the information exchanges in the EDIFACT message standard of the ordering, scheduling, despatch and invoicing cycle. The different scenarios (practices) in use for the global trading cycle between the steel suppliers and the customers of different industry sectors, such as automotive, construction, etc., are explained in the document **"The role of EDI within business scenarios in the steel industry"**, available from EUROFER.

In relation to hire-working activities, the EDIFER group has also published a framework document, called **"An EDI concept for hire-working activities"** and a set of related user implementation guides based on the EDIFACT message standard.

Being aware of the growing acceptance of e-commerce B2B based on the Internet and its technologies, the EDIFER Steering Committee decided at the end of the year 2000, to set up a new working group for the standardisation of information exchange based on XML (eXtensible Markup Language) covering the implementation of e-marketplaces. This working group has adopted the mission "To provide for the European Steel industry an open XML-based infrastructure enabling the global use of electronic information in an interoperable, secure and consistent manner for all parties involved".

During 2001, the new working group defined in detail for the Trade Area the business processes for the Basic Information Cycle and the Ordering Cycle. For each of the processes, the transactions were defined, together with the syntax neutral content. After a review by EUROFER members and interested parties, the first version of the XML messages for the European steel industry will be published during 2002. This activity will continue during the next year, with the aim to finalise the other cycles involved in the trade area, such as the scheduling, shipping, invoicing and payment cycles.

As a recognised European EDI user group, EUROFER is actively participating in meetings organized by standardisation bodies at the European (CEN) and World (UN/CEFACT) levels, the aim being to secure the highest compatibility between the implementation guides of the European steel industry and the international e-commerce B2B standards.

For the next two years (2002-2003), the following actions will take priority:

- The continued review and upgrading of the existing EUROFER user implementation guides of EDIFACT messages;
- Active involvement in the development of the XML standard for e-commerce B2B;
- Cooperation with organisations representing the European steel merchants and the European car industry, to create a common set of user implementation guides of XML information exchanges covering the trade area.

ANNEXES

Members

Companies

AG der Dillinger Hüttenwerke
Arcelor
ASW Holdings PLC
Badische Stalwerke GmbH
Böhler Uddeholm AG
CELSA Compañia Española de Laminación
Corus
Halyvourgiki Inc.
Ispat Europe Group S.A.
Saarstahl AG
Salzgitter AG
Thyssen Krupp Steel AG
voestalpine AG

National Associations

Austria	Fachverband der Bergwerke und Eisen erzeugenden Industrie
Belgium	Groupement de la Sidérurgie – GSV
Finland	Metallinjalostajat
France	Fédération Française de l'Acier – FFA
Germany	Wirtschaftsvereinigung Stahl Edelstahl – Vereinigung e.V.
Greece	Hellenic Steelmakers Union – ENXE
Italy	Federacciai
Spain	Union de Empresas Siderurgicas - UNESID
Sweden	Jernkontoret
United Kingdom	UK Steel

Associate Members

Companies

Çolakoglu Metalurji A.S.
Diler Demir Çelik Endüstrisi ve Ticaret A.S.
Dunaferr
ERDEMIR – Eregli Demir ve Çelik Fabrikalari T.A.S.
HABAŞ Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.S.
Huta Czestochowa
Huta im. Tadeusza Sendzimira
Içdas Çelik Enerji Tersane ve Ulasim Sanayi A.S.
IDÇ – Izmir Demir Çelik Sanayi. A.S.
ISDEMIR – Iskenderun Demir ve Çelik Fabrikalari A.S.
ISPAT Sidex S.A.
JSC Liepâjas Metalurgs
Kremikovtzi Corporation
Nova Hut, a.s.
Slovenske Zelezarne, d.d.
Swiss Steel AG
Trinecke Zelezarny, a.s.
U.S. Steel Kosice, s.r.o.
Vitkovice, a.s.

National Associations

Bulgaria	Branch Chamber of Ferrous and Non-Ferrous Metallurgy
Czech Republic	Hutnictvi Zeleza, a.s.
Hungary	Magyar Vas-Es Acelipari Egyesüles
Poland	Hutnicza Izba Przemysłowo-Handlowa
Romania	Uniunea Producatorilor de Otel din Romania – UniRomSider
Turkey	Demir Çelik Üreticileri Dernegi – DÇÜ

Committees

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Economic Studies

Edifer

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European Parliament Coordination – EPCC

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Investments and Capacities

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