EUROFER

European Confederation of Iron and Steel Industries

ANNUAL REPORT 2002

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

Its members are steel companies and national steel federations throughout the European Union (EU). Today EUROFER represents almost 100% of total steel production in the EU. All major steel companies and national steel federations of Central and Eastern European Countries (CEEC) and Turkey are associate members.

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.

Contents

Introduction

In the year 2002 the business environment within which the European steel industry had to operate was challenging: hopes that the steel market would improve were not realised, as underlying economic conditions remained weak. Steel demand remained flat, even falling slightly in relation to the previous year. However reduced import pressure allowed a slight improvement in domestic deliveries. Crude steel production remained unchanged.

The industry succeeded in the course of 2002 to improve prices which had reached, by the first quarter of 2002 an unsustainably low level following their collapse the previous year. This improvement was absolutely necessary. However the rises achieved did not fully compensate for increased costs and prices did not return to the levels of 2000.

A blow to the multilateral trading system was struck by the decision of the US President in March 2002 to impose safeguard measures. The measures imposed restricted severely access to the US market. European producers with their long-standing stable presence in the US market were hit particularly hard by the tariffs. The measures violated the international obligations of the US under the WTO Agreement and did nothing to address the real need of the US steel industry to restructure, the fundamental reason for its difficulties.

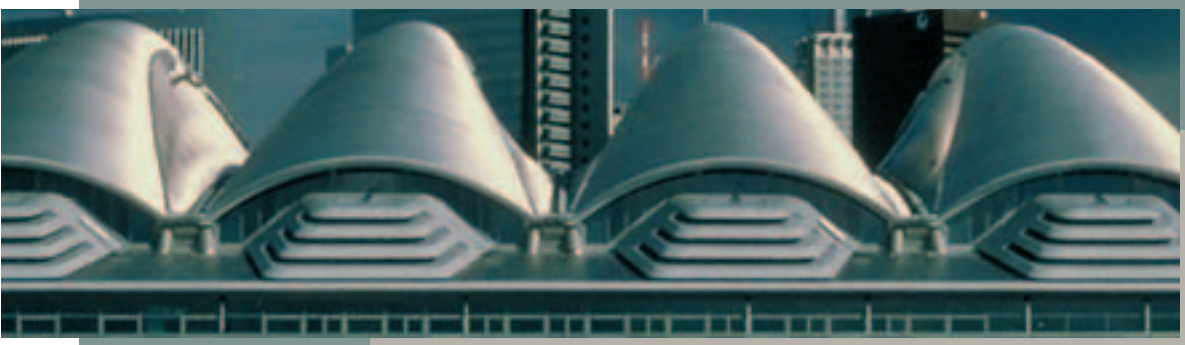
The EU took immediate action to preserve the European market from the threat of trade diversion. In contrast to the US, the EU market was kept open and the measures adopted were designed simply to avoid any sudden destabilising import surge.

The ambition of the European steel industry is to be active in fostering sustainable development. It has a good track record but is aware of the further efforts required. However, the sometimes conflicting targets of environmental friendliness and economic growth must be reconciled if the competitivity of the industry is to be maintained.

In the course of 2002 EUROFER welcomed the companies formerly members of the European Independent Steelworks Association (EISA) into the association. Given the changes of the political, economic and legal environment and the in-depth structural adaptations of the EU steel industry carried out in the last years, the formerly existing differences in interests within the steel sector have disappeared. In all areas of core interests with regard to the future development of the steel industry, views and objectives are shared. The industry's forces are now joined in a single EU steel association, strengthening thereby the representation of its common interests.

Guy Dollé
President

Dietrich von Hülsen
Director General



General Economic Development

Early in 2002, hopes that the economy in the EU would enter a recovery phase after the sharp downturn at the end of 2001 and the beginning of 2002 were quickly dashed. The outlook later in the year had been rather positive with a rapid fading of the global shocks to the economy induced by the events of September 2001. Policy responses in terms of timely tax cuts and lower interest rates together with improving budgetary positions and debt reduction led to rising business confidence.

However, the upswing in the economy that had been expected in the second half of the year did not materialise to any significant extent. GDP estimates for the year were substantially scaled back to a disappointing 0.9%, considerably below that of the previous year. It had been hoped that renewed growth in the United States (US) and elsewhere would drive recovery in the EU. Instead, flagging output in the

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

	2001	2002	2003 (forecast)
GDP	1.4	0.8	1.2
Private consumption	2.0	1.1	1.4
Investments	-0.7	-3.2	0.7
of which: **Investments in equipment**	0.0	-4.8	1.1
Exports	2.9	1.0	2.2
Imports	1.3	-0.3	3.4
Unemployment rate	7.6	7.8	8.0
Inflation	2.2	2.0	2.1

Source: Official data and estimations of the European Commission

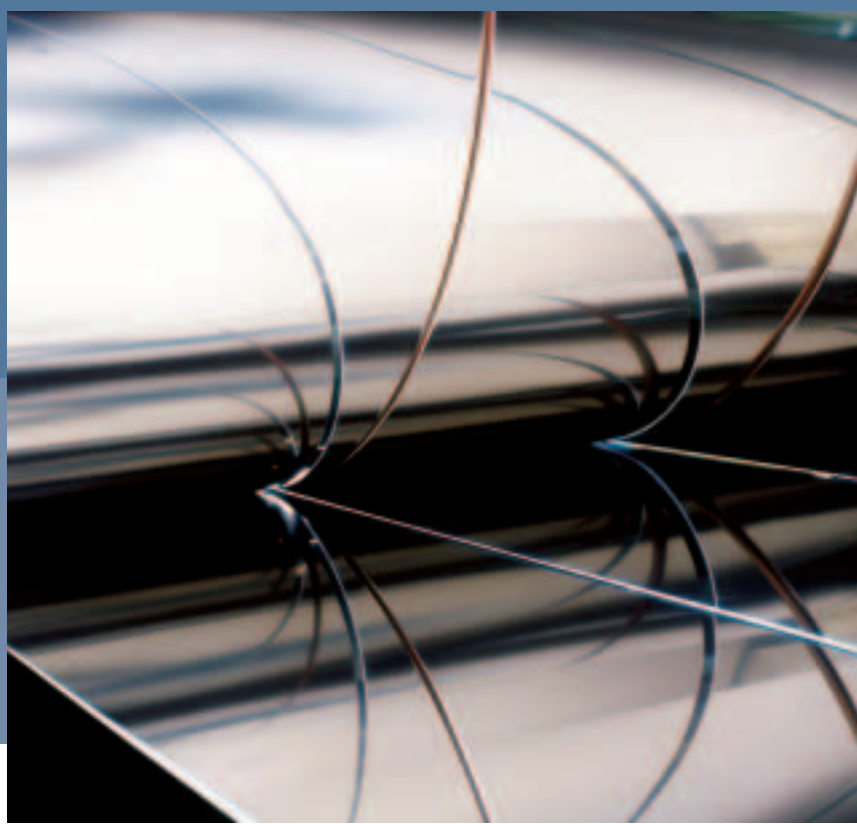
economy of the US very quickly spread to the EU, particularly to those parts of the eurozone already heavily affected by a sharp downturn in internal demand, notably Germany.

The ability of EU governments to stimulate growth was limited by the constraints of the **Growth and Stability Pact** and by the considerable deterioration of public finances in the eurozone as a whole.

Conditions for industry were poor, with lower investment in particular acting as a deterrent to growth. Industrial production remained in negative figures in every quarter of the year. Private consumption growth halved in relation to the previous year.

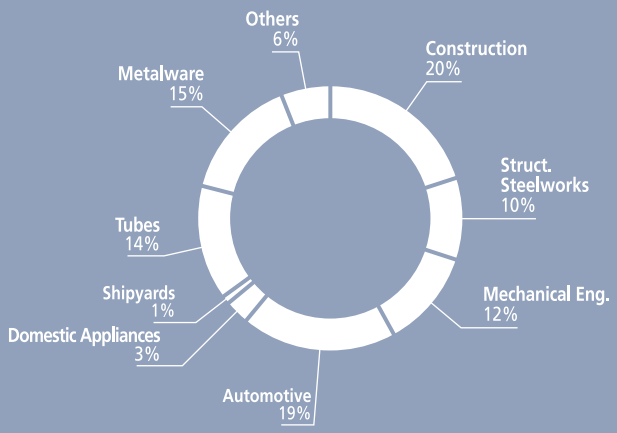
Recovery in the EU was, therefore, clearly delayed and there are few expectations that recovery in this year, if it comes, will be anything more than modest.

Steel Market



Share of Consumption by Steel-using Sector

Source: EUROFER

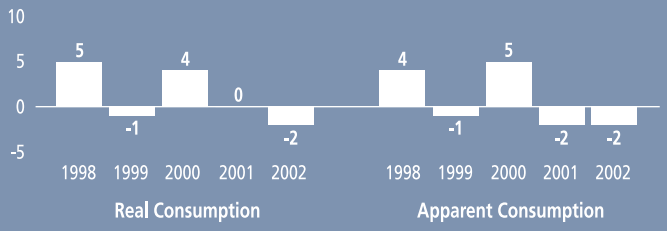


Consumption

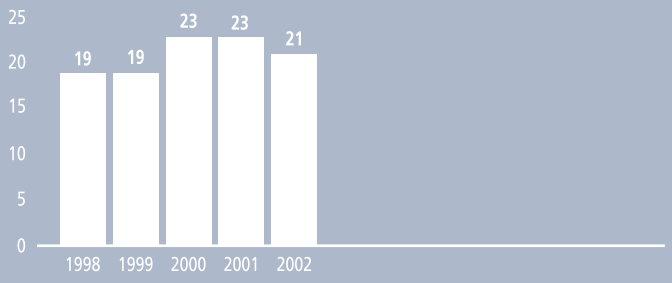
As with the general economy, manufacturing activity and construction were sluggish in 2002 with some sectors in severe recession. The activity levels of the main steel using sectors were much weaker than forecast. Investment levels, particularly for machinery and equipment, fell sharply impacting particularly severely on those sectors which rely on manufacturing industry. None of these sectors – mechanical engineering, automotive, metalware – showed output levels above those of the previous year, and most, particularly mechanical engineering, were substantially lower. Construction output, while still at a high level, peaked in 2001 and no significant growth was seen in 2002.

There was a sharp reduction in real steel consumption in the first half of 2002 and virtually no recovery in the second half. Therefore, consumption for the year as a whole fell by 2%. Demand conditions remained poor throughout the year, although there was a slight improvement in apparent consumption in the last quarter of the year. Order levels remained low. Despite the flat demand, it was nevertheless possible to achieve price rises due to a better balance between supply and demand and a slight reduction of import pressure.

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



ECSC Products Including Semis: Imports (million tonnes)
Source: Comext – Eurostat



Imports

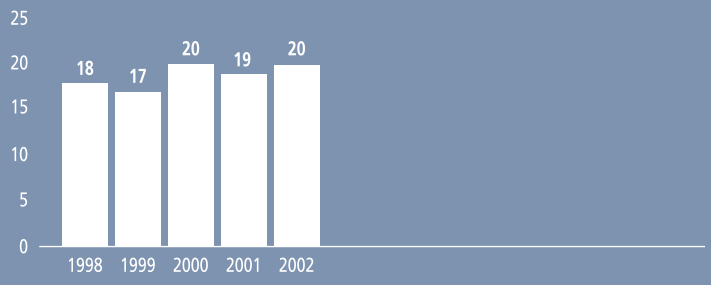
The low level of prices in Europe in the first part of 2002 compared with the international market, and the difficult market conditions with poor demand and low order levels, made the market less attractive to exporters. The reduction in import levels was not enormous (-9%) or roughly 2 million tonnes. This has to be seen in relation to the record levels of imports of 23 million tonnes that had been experienced the previous year.

Even with this reduction, imports in 2002 remained at 21 million tonnes, itself the second highest level of imports ever seen in Europe. Imports therefore remained 9 million tonnes higher than the level typically seen prior to the Asian crisis of 1998. This demonstrates that the EU market remained entirely open to trade despite the US imposition of safeguard measures in March 2002. Indeed, it illustrates the real difference between the measures introduced in Europe and those imposed in the US. In the US the measures imposed – a series of steel tariffs – reduced substantially the access to that market. In contrast, in Europe the measures were tariff quotas that were set at the import level of 2001, i.e. at the level of the all-time import record for steel. The measures therefore proved to be, as they were declared at the time, entirely non-restrictive and essentially precautionary, to avoid any sudden surge on European markets as a result of the American measures (Section 201)[1].

However, the small reduction in import levels did not restore the trade surplus in steel products which the EU experienced traditionally prior to the Asian crisis. The last year of trade surplus was 1997. Since then the trade balance of the EU has steadily deteriorated as Europe has seen its import levels rise. In 2002, the deficit narrowed from the -5 million tonnes seen in 2001 to -1.5 million tonnes for total steel products, including semis. Excluding semis, and taking only finished products into account, a positive trade balance was restored, of the order of 1 million tonnes.

1: The "Section 201" is the provision of the US Trade Act of 1974 that implements the WTO safeguards agreement into the US legislation.

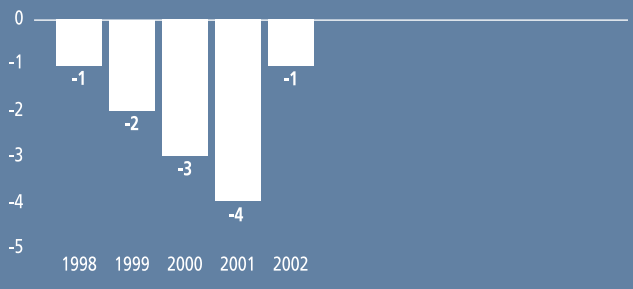
ECSC Products Including Semis: Exports (million tonnes)
Source: Comext – Eurostat



Exports

Poor demand conditions on European markets pushed producers to look for export opportunities despite the challenges created by the US Section 201 measures and the protectionist measures taken in a number of third countries. The very strong demand from China allowed an expansion of exports there and this factor probably prevented more disruption on world markets as a consequence of the American measures. EU exports to third countries grew by 3.5% to 19.5 million tonnes.

ECSC Products Including Semis: Trade Balance* (million tonnes)
Source: Comext – Eurostat *(Trade Balance = exports-imports)

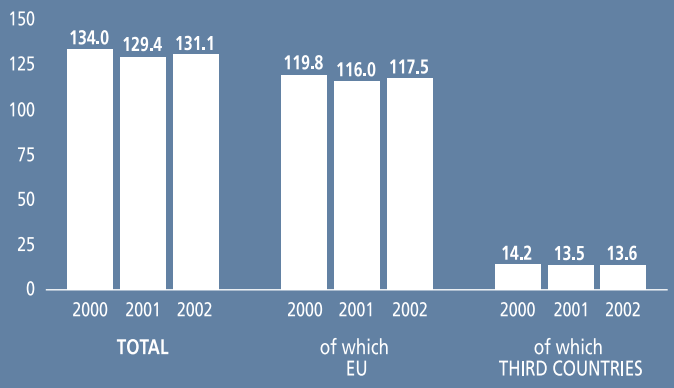


Deliveries of Carbon Steels

Total deliveries of carbon steel rolled finished products (defined as non-alloy and alloy steels other than stainless) within the EU and into third countries showed a slight increase in 2002.

Carbon Steels Deliveries:
+1.3%
of which to EU markets:
+1.3%
of which to export markets:
+0.8%

Carbon Steels: Total Deliveries (million tonnes)
Source: EUROFER

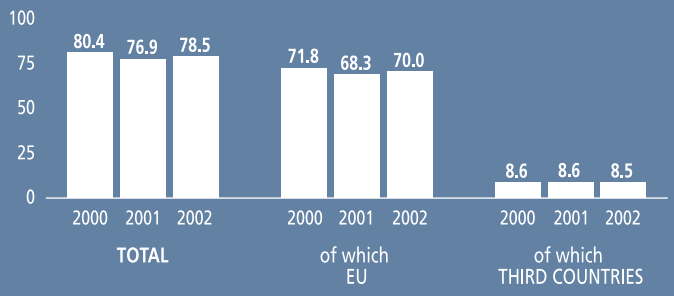


Flat Products

With an increase of only 0.5%, the apparent consumption of flat products within the EU remained nearly unchanged in 2002. Due to a 10.3% reduction in imports from third countries, the deliveries of EU-mills increased over the whole year by only 2.5%. Deliveries fell by 0.4% in the first half of 2002, but recovered by 6% during the second semester.

Carbon Steels
– Flat Products Deliveries:
+2.0%
of which to EU markets:
+2.5%
of which to export markets:
-1.7%

Carbon Steels: Flat Products Deliveries (million tonnes)
Source: EUROFER



Prices reached their lowest level in the first quarter of 2002. A general price recovery started during the second quarter. Up to the end of the year, prices for strip mill products increased between 100€ and 110€. Nevertheless, they did not reach the levels of end 2000.

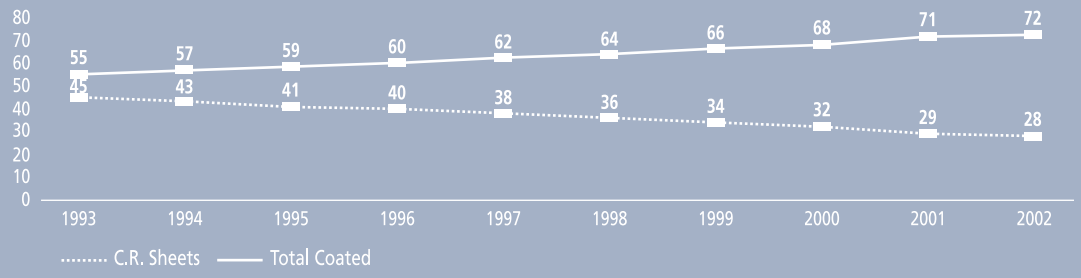
Deliveries of coated sheets within the EU increased by 6.1%, but the increases of hot rolled flat products (2%) and black and tin plate (1.6%) were lower. The deliveries of cold rolled sheets were nearly unchanged (0.1%). On the other hand, deliveries of electrical sheets, and quarto plates and wide flats decreased by 7.5% and 1.6% respectively.

Compared to the previous years, the substitution of uncoated cold rolled sheets by coated material continued but with a slowdown. However, the substitution of electrozinc-coated sheets by hot dipped galvanized coated sheets became more marked, especially in the automotive sector. EU deliveries of hot dipped galvanized sheets rose by 12.5% against an 11.6% fall for electrozinc coated sheets. The performance of organic coated sheets (1.8%) remained weak due to the poor activity of the construction sector.

The price increases in the EU and trade restrictions in several markets made deliveries to third countries less attractive. Overall exports decreased by 1.7%, mainly associated with reductions in quarto plate (-15.3%), cold rolled sheets (-8.1%) and hot rolled flat products (–2.6%). Increased deliveries were seen for electrical sheets (12.8%), coated sheets (8.2%) and black and tin plate (1.0%)

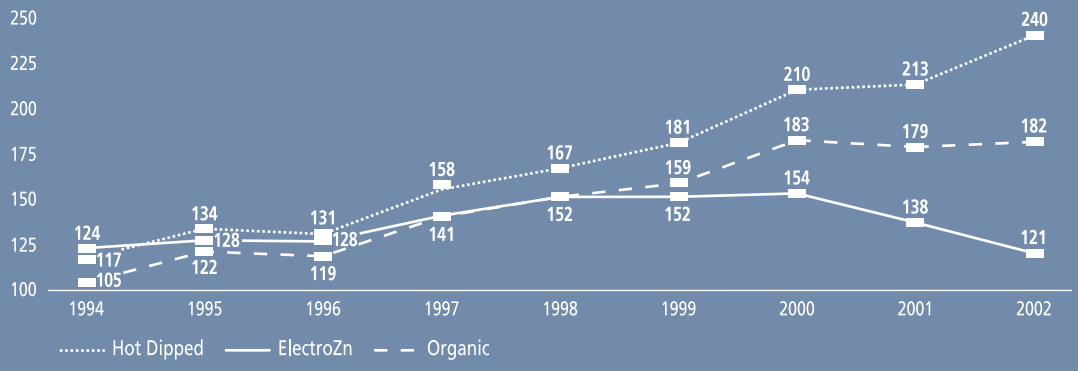
Carbon Steels: Delivery Structure of Cold Rolled Products (in %)

Source: EUROFER



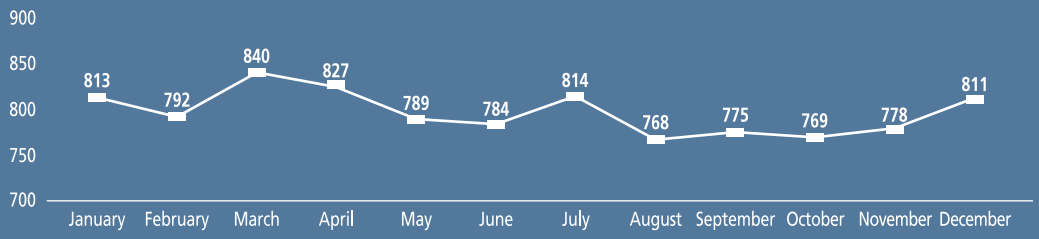
Carbon Steels: Development of Coated Products Deliveries within the EU (index: year 1993=100)

Source: EUROFER



Zinc: Monthly Development of Quotations in 2002 (US$/tonne)

Source: Metal Bulletin



Long Products

Due to the weak activity in the construction sector, the market supply of the EU has remained nearly at the same level for three years. Imports increased by 2%, but deliveries of the European mills showed a slight decrease (-0.3%).

Carbon Steels
– Long Products Deliveries:
+0.3%
of which to EU markets:
-0.3%
of which to export markets:
+5.4%

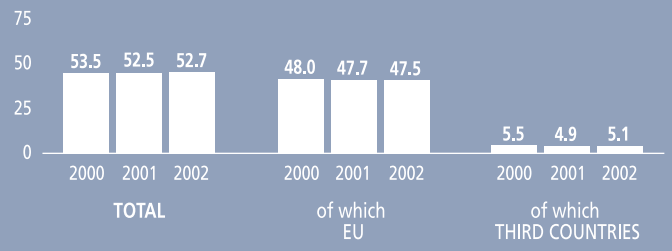
The reduction of EU deliveries was mainly due to merchant bars (-5.7%) and heavy sections (-1.3%). Deliveries of reinforcing bars (2.6%) and wire rod (0.9%) showed small increases.

Deliveries to third countries increased overall by 5.4%. This was mainly due to the strong performance of wire rod (29.9%) and heavy sections (15.7%). On the other hand, exports of reinforcing bars (-29.5%) and merchant bars (-7.0%) were reduced.

Prices of long products increased, but at a lower rate than that for flat products.

Carbon Steels: Long Products Deliveries (million tonnes)

Source: EUROFER



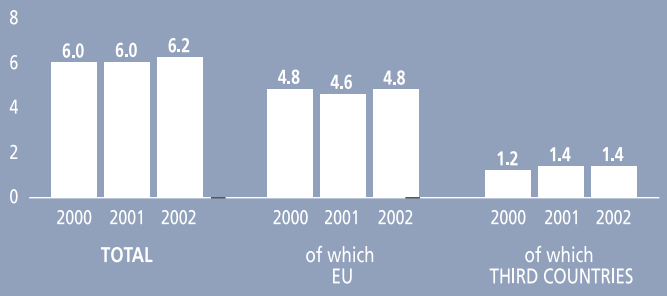
Deliveries of Special Steels

The activity level remained generally stagnant in most of the special steel consuming industries as the recovery of the European economy that had been expected in the second half of 2002 was slower than anticipated.

For the whole year 2002, total special steels deliveries by EU producers decreased by 2.1%, a contraction which was attributable to weaker EU business (-2.7%) that was only partially compensated by a slight improvement in the export performance (+0.9%).

Stainless Steels: Development of Deliveries (million tonnes)

Source: EUROFER



Stainless Steels

For stainless steels, the situation was the following in 2002 compared to 2001:

Total stainless steel deliveries:
+2.4%
of which to EU markets:
+2.7%
of which to export markets:
+1.5%

In the absence of any fundamental economic recovery in Europe and after the fall in apparent consumption recorded in 2001, the stainless steel market improved gradually in 2002 consequent to some reconstitution of inventories, the rising trend of nickel and chromium prices, the gains from the substitution effect versus other materials and the positive influence of booming consumption in China.

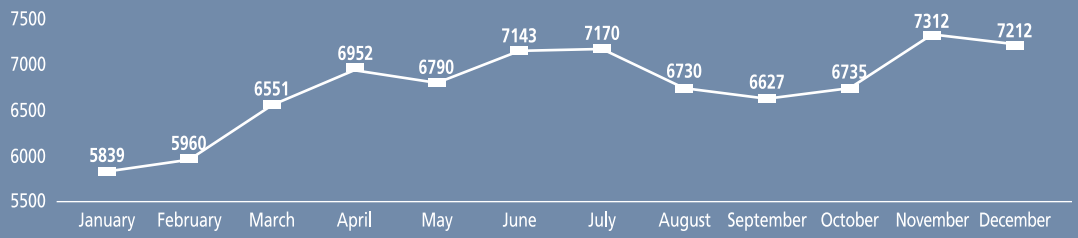
Total stainless steel figures, however, do not show the difference between flat and long products. Whilst deliveries of flat products increased by 4.1% compared to 2001, and reached a new record level close to 5 million tonnes, total European producers' deliveries of long products decreased by 3.8% year-on-year, reflecting the weakness of demand from the investment goods sector.

During 2002, a strong growth of imports was recorded in both the cold rolled flat products and long products segments.

Regarding 2003, an improvement of real consumption, in line with its long term trend, as well as of apparent consumption, is expected to materialise in the 2nd half of the year provided that a number of uncertainties affecting consumer and industrial confidence are resolved.

Nickel: Monthly Development of Quotations in 2002 (US$/tonne)

Source: Metal Bulletin



Alloy Engineering, Tool and High Speed Steels

The fall in activity in the main engineering steel using sectors, which had impacted negatively on demand from the 3rd quarter of 2001, continued in the first half of the year 2002.

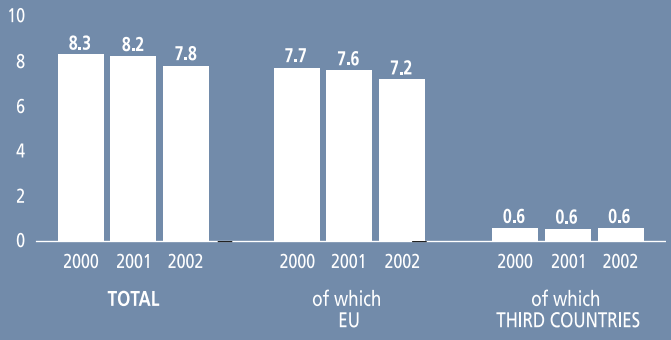
During the latter period, orders from the mechanical engineering sector were particularly weak and, although less pronounced than generally predicted, the contraction of demand from the car industry was also felt in most countries. Compared to the historically high level of the first half of 2001, total deliveries by EU producers fell by 11.5% in the first half of 2002.

Some signs of revival and of a better oriented demand, mainly linked to sustained activity in the car industry and helped by strong export sales, appeared in the second half of 2002. Consequently, deliveries by EU producers to the EU market increased by 1.8% compared with the same period of 2001. A slow and continuous improvement is expected for 2003, especially in the second part of the year.

Engineering, tool and high speed steel deliveries:
-5.8%
of which to EU markets:
-6.3%
of which to export markets:
-0.6%

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

Source: EUROFER



Crude Steel Production

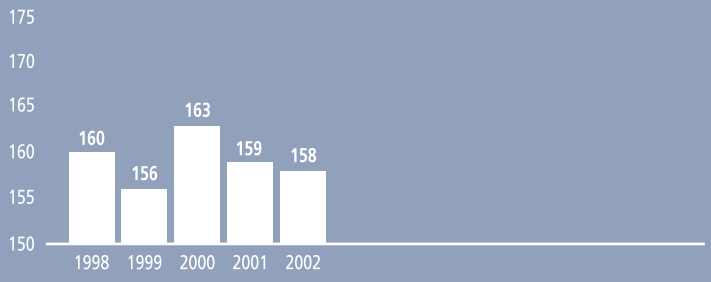
At 158.48 million tonnes, crude steel production in the EU remained nearly at the same level as in the year 2001 (158.51 million tonnes), reflecting the flat evolution of demand.

Until 2001, the EU was the largest producer in the world. The first place has been now taken by China, increasing its steel production from 151 million tonnes in 2001 to 182 million tonnes in 2002.

World steel production increased by 52 million tonnes (6%), from 850 to 902 million tonnes. This was mainly due to increased production in China.

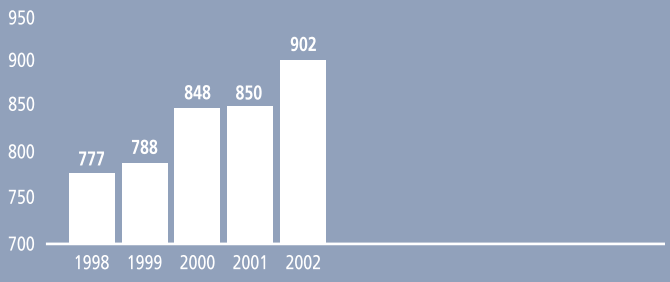
EU Crude Steel Production (million tonnes)

Source: EUROFER



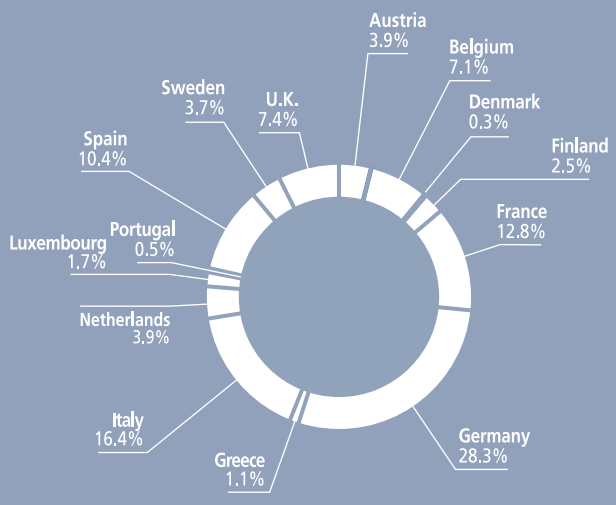
World Crude Steel Production (million tonnes)

Source: IISI



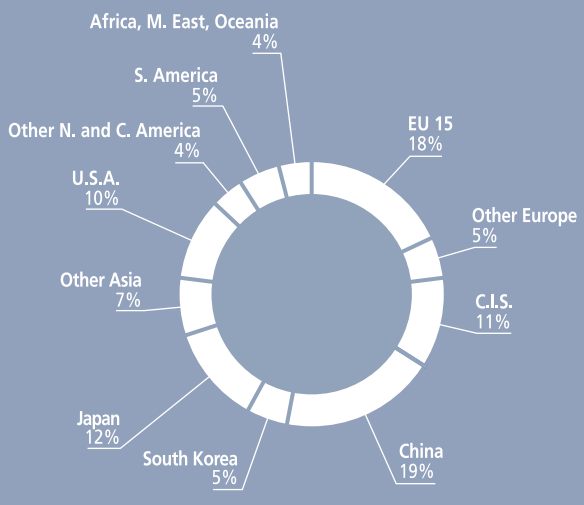
EU Crude Steel Production Geographical Breakdown

Source: EUROFER



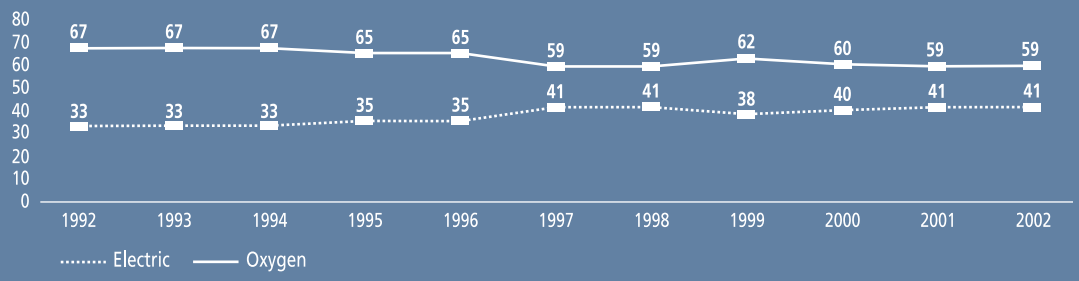
World Crude Steel Production Geographical Breakdown

Source: IISI



EU Crude Steel Production by Process (in %)

Source: IISI



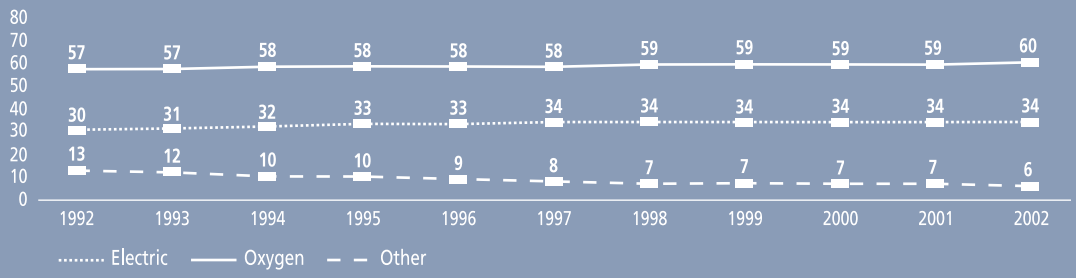
EU Crude Steel Production (million tonnes)

	2002	2001	02/01 (% changes)
Austria	6.2	5.9	5.1
Belgium	11.3	10.8	4.6
Denmark	0.4	0.8	-50.0
Finland	4.0	3.9	2.6
France	20.3	19.4	4.6
Germany	45.0	44.8	0.4
Greece	1.8	1.3	38.5
Ireland	0.0	0.2	-100.0
Italy	25.9	26.5	-2.3
Luxembourg	2.7	2.7	0.0
Netherlands	6.1	6.0	1.7
Portugal	0.8	0.7	14.3
Spain	16.4	16.5	-0.6
Sweden	5.8	5.5	5.5
United Kingdom	11.7	13.6	-14.0
Total	**158**	**159**	**-0.6**

Source: EUROFER

World Crude Steel Production by Process (in %)

Source: IISI



World Crude Steel Production (million tonnes)

	2002	2001	02/01 (% changes)
World	**902**	**850**	**6.1**
Europe	**207**	**205**	**1.0**
of which EU 15	158	159	-0.6
C.I.S.	**100**	**100**	**0.0**
of which Russia	60	59	1.7
Ukraine	33	33	0.0
Asia	**394**	**354**	**11.3**
of which China	182	151	20.5
Japan	108	103	4.9
South Korea	45	44	2.3
North and Central America	**124**	**120**	**3.3**
of which USA	92	90	2.2
South America	**41**	**37**	**10.8**
Africa, Middle East and Oceania	**36**	**34**	**5.9**

Source: IISI

Trade Policy

US Safeguard Measures

The year was dominated by the repercussions of the decision by the US in March 2002 to impose safeguard measures, following the US International Trade Commission's Section 201 investigation.

On 5 March President Bush announced that, as from 20 March, additional tariffs as high as 30% during the first year of implementation, would be imposed for a period of three years on 14 product categories. As reported in the press,[2] this "was the culmination of a relentless lobbying campaign by steel interests, here, bolstered by efforts of lawmakers on Capitol Hill, key Cabinet member support, and the desire of a President looking to trade votes for his Trade Promotion Authority (TPA) bill, in return for giving a boost to the steel industry".

2: American Metal Market, December 27 2002: "In Washington, all eyes are on one number" by Nancy Kelly.

President Bush's Steel 201 Relief

PRODUCTS	YEAR I	YEAR II	YEAR III
Slab			
Quota	5.4 million tonnes	5.9 million tonnes	6.4 million tonnes
Tariff	30% after Q volume	24% after Q volume	18% after Q volume
Tin Mill Products	30%	24%	18%
Other Flat Products	30%	24%	18%
Hot-rolled Bar	30%	24%	18%
Cold-finished Bar	30%	24%	18%
Rebar	15%	12%	9%
Certain Tubular Products	15%	12%	9%
Carbon & Alloy Fittings & Flanges	13%	10%	7%
Stainless Steel Bar	15%	12%	9%
Stainless Steel Rod	15%	12%	9%
Stainless Steel Wire	8%	7%	6%
Stainless Flanges & Fittings	No relief		
Tool Steel	No relief		

Prepared by Iren Borissova, IASG Ltd.- © International Advisory Services Group, Ltd., March 2002

EUROFER immediately condemned the unilateral approach adopted by the US Government, as well as the unjustified and counterproductive nature of the safeguard measures themselves. Indeed,

- the origin of the US industry's problem was not imports but its inability to achieve cost competitiveness through restructuring and the closure of uneconomic capacity;
- the measures did not contribute to solving the huge "legacy cost" problems of the integrated steel producers;
- further protection was likely to cause further delays in the long overdue restructuring of the US steel industry; and
- the safeguard measures violated the international obligations of the US under the WTO Agreements.

The EC deplored President Bush's decision to restrict severely steel imports from the rest of the world to the US market, denoting it "a major setback for the world trading system". Further, Commissioner Lamy declared that the EU would "launch an immediate complaint in Geneva against this clear violation of WTO rules".

On 14 June 2002, the WTO established a panel to judge the conformity of the US safeguard measures following complaints from the EU, Japan, Korea, China, Switzerland, Norway, New Zealand and Brazil. Moreover, Canada, Chinese Taipei, Cuba, Malaysia, Mexico, Thailand, Turkey and Venezuela reserved their rights to participate in the panel proceedings as third party. The unprecedented number of countries associated with this dispute illustrates the exceptional seriousness of the US measures and their potential consequences.

The New York Times stressed, accurately, that "In the case of steel, the White House weighted three electoral votes in West Virginia against the world trading system... and the answer was apparently obvious... the big danger when the US flouts the rules is not retaliation, it's emulation..."[3]

In fact, the nature of the US measures led to the initiation, opening or imposition of some 16 safeguard and anti-dumping actions world-wide as a direct reaction to the effective closure of the US market.

The EU took immediate action to preserve the European market from the threat represented by the US measures. European producers were the hardest hit directly by the US tariffs and the European market was very exposed to any diversion of trade flows from the US. Fortunately, the threat of diversion of volumes did not materialise to the extent that had been feared. This was in large part due to the prompt action taken by the EC, action that was tailored in an appropriate manner to keep the market open while avoiding any sudden destabilising import surge.

The day after the announcement of the US measures, the EC, acting on information provided to the Member States by EUROFER, launched the procedure for the introduction of a safeguard measure.

On 28 March, the EC initiated an investigation covering 21 products. The same day, it imposed provisional measures on 15 of the products covered by the investigation. On 27 September, following a 6-month investigation, definitive safeguard measures were imposed on 7 products for a three-year period. The remaining products were subject to both prior surveillance and an accelerated monitoring of trade statistics in order to have early warning of any sudden trade surges.

The measures imposed in Europe were – unlike those of the US – moderate, essentially precautionary, designed to keep the market open by introducing tariff rate quotas based on the year which had seen the highest-ever imports into the Community and, most importantly, were entirely WTO-consistent.

The domino effect of the US steel safeguard action quickly became apparent. Many countries initiated protectionist measures as a result. Some of these, notably the safeguards introduced in China and Poland, risked impacting severely on EU exports. The EC immediately engaged in consultations with the majority of countries that had introduced measures and succeeded in obtaining useful modifications in several cases. Nevertheless, the wave of protectionism set off worldwide by the US measures significantly undermined free trade in steel and highlighted the importance of both full compliance with existing WTO rules and of achieving progress in the Doha Round on the harmonisation of the application of the WTO Anti-dumping Agreement.

3: The New York Times, May 24 2002: "America the Scofflaw" by Paul Krugman.

WTO Decisions in Trade Disputes between the EU and the US

During 2002, the WTO Dispute Settlement Body (DSB), in charge of ensuring compliance with multilateral trade rules, took the following significant decisions in disputes between the EU and the US on steel issues:

- **US Anti-Dumping Act of 1916:** Following the 26 September 2000 DSB recommendation that the US bring its Anti-Dumping Act of 1916 into conformity with its obligation under the WTO Anti-Dumping Agreement, on 7 January 2002 the European Communities and Japan requested WTO authorisation to take counter measures against the US, on the grounds that the US had failed to bring its measures into conformity, within a reasonable period of time. That approach was later suspended, as a proposal to repeal the 1916 Act, and to terminate cases pending under the Act, was being examined by the US Congress. However, the year ended without any progress: Congress has shown little interest in repealing the Act, even though token bills have been introduced in the House and Senate.

- **Byrd Amendment:** Under the "US Continued Dumping and Subsidy Offset Act of 2000" it was decided to distribute to plaintiffs the duties collected pursuant to anti-dumping and countervailing duties orders. On 16 September 2002, following a request made by eleven countries and the EU, a WTO Panel concluded that this Act was inconsistent with US international obligations and recommended that the DSB request the US to bring their legislation into conformity by repealing that Act. In October 2002, the US Government appealed against the Panel conclusions.

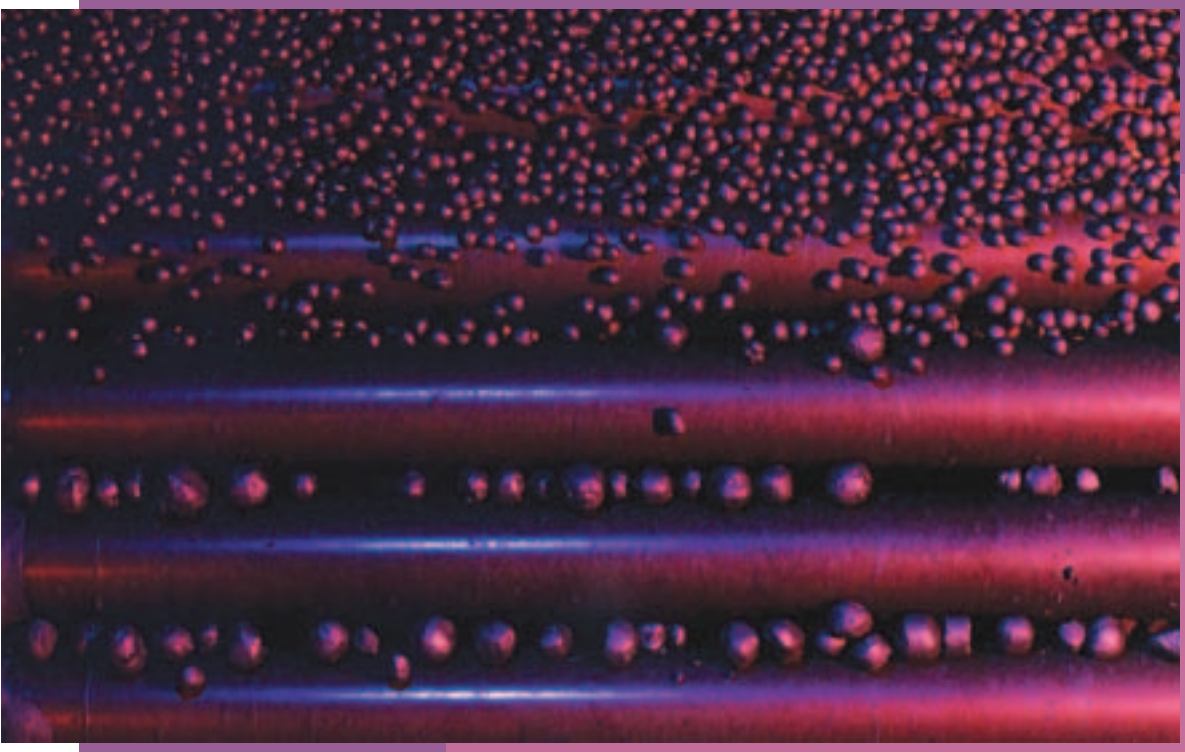
- **Privatisation subsidies:** On 9 December 2002, the WTO Appellate Body condemned the determinations of the US Department of Commerce in twelve countervailing duty cases involving European companies, because the investigating authority failed to ascertain the continued existence of a "benefit" following privatisation of the recipient companies.

Trade Agreements with CIS Countries

In the course of 2002, the EU renewed its bilateral agreements with Russia, the Ukraine and Kazakhstan. In contrast to the turbulence in international trade, these agreements provide a stable framework for the development of trade in steel products between the EU and these economies in transition. The agreements offer them guaranteed access to the EU market, while providing security to the EU industry against the risk of a disproportionate development of exports from the industries of these countries as they restructure their capacities and develop their domestic consumption.

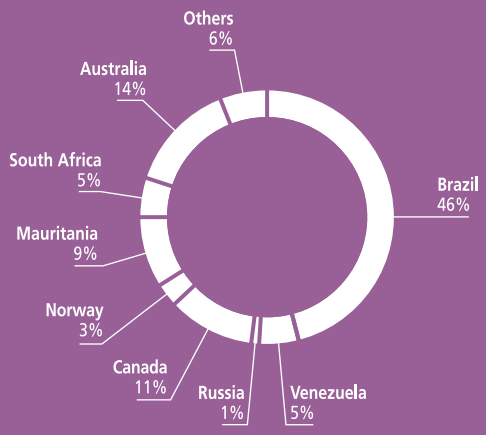
Unfortunately, the signing of the new agreement with the Ukraine had to be suspended following introduction by the Ukraine of restrictions on scrap exports, contrary to the terms of the agreement. In addition, the EC introduced autonomous contingents, cutting 2001 export volumes by 30%, reflecting the difficulties that the restrictions on scrap export caused to the industry in the EU. Discussions are resuming on this issue at present.

Raw Materials



EU Receipts of Imported Iron Ore

Source: Eurostat



Iron Ore

Prices for iron ore fell in 2002, with the FOB[4] reference price for fines falling by 2.4% and the delivered reference down by 8.3%. The lump premium fell significantly, as did the premium for pellets.

2002 was a record year for seaborne traded iron ore, world levels rising by approximately 25 million tonnes from the 2001 level to 475 million tonnes. Virtually all of the increase was accounted for by China, where steel production continues to expand rapidly. China is now a major factor in the world markets for iron ore.

In the EU, pig iron production levels were virtually unchanged in 2002 at 89.7 million tonnes (90 million tonnes in 2001). The pattern of sourcing of iron ore was largely stable. Intake of fines rose while that of pellets dropped, in part due to high stocks. Ore supplies remained satisfactory, with a good performance from all producing mines. The new facility at Angelas in Western Australia started production on budget and slightly early, and this ore is now widely used.

Coal

The major development in 2002 was the sharp rise in coke requirements in Europe due principally to closure of some coke batteries. World prices rose substantially as, at the same time, Chinese supplies reduced and US demand went up.

4: FOB is a commercial acronym standing for "free on board". It includes the cost of transportation to the port of transportation, and the cost of loading the goods on a vessel. It does not include further shipment or insurance.

Scrap

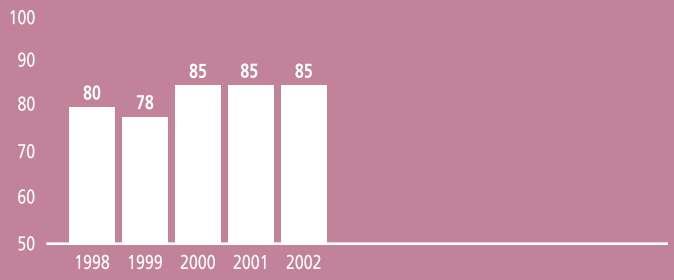
There was upward pressure on scrap prices throughout much of 2002, pressure which intensified at the end of the year. Demand remained very strong throughout the year as electric arc furnace production levels continued at a high level (65 million tonnes in 2002).

Scrap consumption, therefore, also remained at a high level but supplies remained largely unproblematic. However, while domestic supplies remained generally good, a variety of factors began to make access to supplies from certain third countries difficult and began to increase pressure on prices in Europe.

The EU is a significant importer of ferrous scrap, importing some 7.7 million tonnes from third countries. Imports are an increasingly important factor in the balance between supply and demand of scrap in Europe. The scrap market in Europe is finely balanced – any factor suddenly affecting supply has a consequent sudden impact on prices in the EU. Therefore, when the two countries accounting for 30-40% of EU imports tighten

Scrap: EU Consumption (million tonnes)

Source: Eurostat



measures aimed at reducing their exports, the effect is immediate: this is what happened in 2002.

Chief amongst these measures were the restriction on exports from Russia and the imposition of an export levy of €30 per tonne by the Ukraine.

Concerning Russia, despite, when signing the new bilateral agreement on steel with the EU at the end of 2001, undertaking to open new border points to facilitate the export of scrap, difficulties remained. The new border points only opened late in the year and the certification requirements necessary to complete an export became increasingly laborious, to the point of harassment. This situation has still not been resolved. In addition, the tax of 12% on scrap exports continues to be applied. The EC is continuing its efforts to resolve these difficulties.

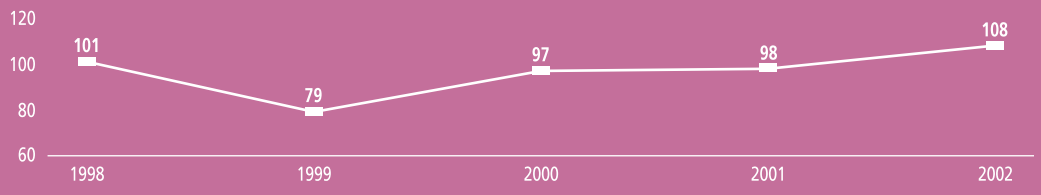
The Ukrainian action in the last quarter of the year had an immediate impact on the European market, coming as it did at a time when supplies were already under some stress. Supplies in the EU had tightened, with domestic scrap availability reduced due to the downturn in industrial production in Europe and strong and growing demand from the Far East driving exports from Europe. The imposition of the export tax by the Ukraine was the latest in a series of less formal measures designed to restrict scrap exports, measures such as refusing to reimburse VAT on scrap bought for export, difficulties in obtaining scrap export permits, cancelling authorisations for scrap export and obliging all contracts to be re-negotiated. The result of these measures was to reduce exports to a trickle.

These measures were imposed when Black Sea ports were closing for seasonal reasons. In addition to the EU, Turkey was also affected and was forced to return to the Rotterdam market as an alternative. Scrap prices in the EU in the last months of the year began to rise very rapidly.

Recognising that uninterrupted scrap flows are vitally important to the EU steel industry, the EC reacted strongly to the Ukrainian actions by refusing to sign the new bilateral agreement which gave the Ukraine a 40% increase in quotas of finished products for export to the EU, and by cutting the existing quotas by a further 30%: a firm response which gave a strong signal.

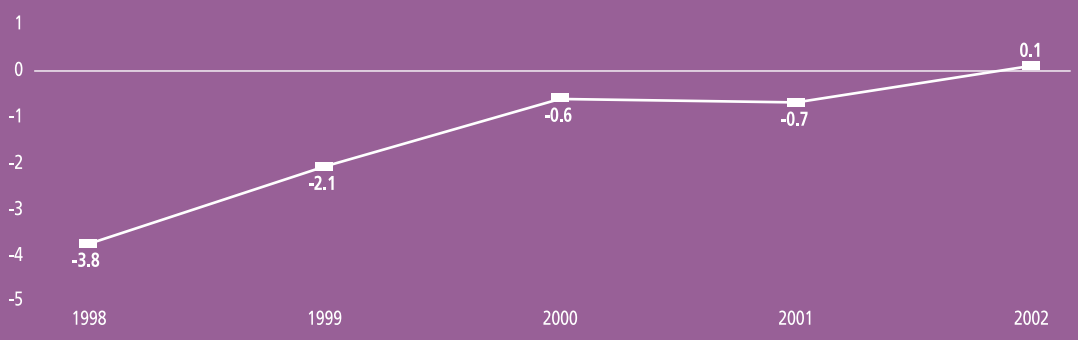
Scrap (Demolition Quality)**: Prices EU Market** (€/t)

Source: EUROFER



Scrap: EU Trade Balance (million tonnes)

Source: Eurostat



Technology and Environment

Research

ECSC Research

The European Coal and Steel Community (ECSC) Treaty expired on 23 July 2002. The international conference *Steel Research from ECSC to the Future* held in Luxembourg in June 2002, formally concluded the ECSC research programme.

Following the decision of the EU Council, the assets of the ECSC will continue to be used through the future Research Fund for Coal and Steel (RFCS). The objective is to support the competitiveness of the coal and steel industry and to contribute to its sustainable development.

The RFCS is managed by the Coal and Steel Committee (COSCO), the Coal and Steel Advisory Groups (CAG, SAG) and technical groups. 21 members of the SAG represent the steel industry, national federations and related research centres; 2 organisations (of which one is EUROFER) represent producers at a European level; 2 members represent organisations of workers and 5 members represent organisations of downstream processing industries and steel users.

During 2002, 116 research proposals were submitted.

EU Research Framework Programme

The 6th Framework Programme for Research and Technical Development (FRP)[5] adopted in 2001 and now operational, started with increased possibilities for the steel industry. The activity areas representing financing opportunities for steel industry projects are:

- Nanotechnologies and nano-sciences, knowledge-based multifunctional materials and new production processes and devices;
- Sustainable development, global change and ecosystems.

The continuous efforts made by EUROFER to develop joint breakthrough projects have led to the presentation of some proposals. The main ones are: a project for reducing CO_2 emissions in the steel industry and a project in the area of surface technology and coating.

Thematic Network

The Thematic Network NEST (New Efficient Steel Technologies) expired in June 2002 after three years of activity (http://www.eurofer.org/nest/Restopics.htm). EUROFER, as a main contractor, was deeply involved. In the frame of the information exchange activities to be developed, aimed at establishing durable links with steel research and technology development activities, EUROFER published the booklet *Networking in the European Steel Research* (see chapter Communication).

Standards

The European Committee for Iron and Steel Standardization (ECISS) took over the activities of the Coordinating Committee on the Nomenclature of Iron and steel products (COCOR). ECISS is composed of 18 members delegated by the national standards organisations of the EU countries. Some of them are members of the EUROFER Standards Committee, the body aimed at following, among others, the works of ECISS.

ECISS, as Associated Standards Body of the European Committee for Standardization (CEN), develops draft standards that are then submitted for the formal approval of the CEN National Members. Thirty-one technical committees work under the umbrella of ECISS.

The standardisation of environmental matters is becoming more and more important. The standardisation of scraps is still a pending but very important issue. For instance, this could be based on the classification developed by EUROFER in the 1990s.

5: Details on the 6th FRP at: *http://fp6.cordis.lu/fp6/home.cfm.*

Environment

Integrated Pollution Prevention and Control (IPPC)

EU common rules on permitting for industrial installations set out in the **IPPC Directive** of 1996 (Directive 96/61/EC), are aimed at minimising pollution from various point sources throughout the EU (http://europa.eu.int/comm/environment/ippc/).

In order to continue to develop Best Available Techniques (BAT) Reference Documents (BREF), EUROFER continued its participation in forums and working groups organised by the EC to exchange information.

The EC has scheduled revision of the iron and steel and ferrous metal processing BREFs for 2004 and 2005, respectively. EUROFER considers this inappropriate: these documents are generally well written and up-to-date and the scheduled revision is too early. In addition, the manpower required would be considerable and cannot be justified at this time.

The last relevant vertical BREF for the steel industry is the one for Metal Surface Treatment. Its finalisation is expected in autumn 2003.

In addition to those particular BREFs, during 2002, EUROFER continued to be involved with BREFs on horizontal, cross-sectoral issues such as economic and cross media effects.

EUROFER considers that at the national level, IPPC is still not implemented properly: 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 should be assessed, as required under the IPPC Directive. The issue of national implementation at different rates will not be addressed for several years yet, as the first report to be made by each Member State regarding its implementation of the Directive will not be transmitted to the EC before 2005. The lack of coherent application of IPPC requirements at EU level could persist for a long time.

Greenhouse Gas Emission, Climate Change and Emission Trading

EUROFER has been following very closely the co-decision procedure of the final proposal for a **Directive Establishing a Scheme for Greenhouse Gas Emission, Allowance Trading within the Community and amending EU Council Directive 96/61/EC** (http://europa.eu.int/comm/environment/climat/emission.htm).

According to the Kyoto Protocol, ratified in 2002, most of the Member States have already developed schemes to meet their targets (so-called *"burden sharing"*). EUROFER expressed some reserves on the text of the new proposal for emission trading (ET), because it is often incompatible with these national initiatives.

EUROFER, together with other energy intensive sectors sharing its view, decided to build an *alliance*[6] in order to support this position more effectively towards EU Institutions. In this context, the alliance issued a paper explaining and justifying its position (http://www.eurofer.org/positionpaper/environment.htm).

On specific matters concerning the steel sector, EUROFER has developed a distinct position. The main points are the following:

1. Any ET scheme itself should:
   - not damage competitiveness;
   - minimise administrative costs;
   - maximise liquidity of allowances;
   - **not conflict with national measures** already in place or being developed e.g. national agreements.

2. **Method of allocation**: allowances must be **free of charge** for all periods.

3. **Participation in a European ET scheme should be voluntary**, not compulsory, at both Member State and company level: **the "exclusion" (opt out)** of certain installations should apply for all periods.

4. The addition to the Directive of provisions **enabling operators to participate in a pool** for trading purposes is, in principal, **subject to satisfaction with the detailed design**, supported by EUROFER.

5. **Carbonaceous products used as raw materials should be excluded**, up to the levels achieved with BAT, from the calculation of quantities of allowances.

Concerning the implementation of other Kyoto instruments – Joint Implementation and Clean Development Mechanisms (JI/CDM) – the EC is preparing a first draft Directive which should be ready by June 2003.

Following an extensive consultation[7] with national governments, industry and other interested parties, the EC issued the final draft document on JI/CDM **mechanisms** in November 2002. This document considers project-based mechanisms that 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.

Although the JI/CDM document does not take any position on the quality of flexible mechanisms or establish how these mechanisms could be linked to an ET scheme, the Council, in its political agreement on the ET Directive (December 2002), recognised the need to develop an additional framework. The recognition of credits from project-based mechanisms for fulfilling obligations under the ET Directive as from 2005 will increase the cost-effectiveness of achieving reductions of global greenhouse gas emissions.

In the case of CO_2 becoming a commodity to be traded, it is also essential that emissions are calculated in the same manner and with the same accuracy. The International Iron and Steel Institute (IISI) is developing a uniform calculation method for CO_2 in the steel industry. EUROFER considers it necessary for the CEN, on the basis of the method developed by the IISI, to develop a standard method to quantify CO_2 emissions.

6: The following energy intensive sectors participate in the *alliance*: cement, lime, glass, paper, non-ferrous metals and steel.

7: This consultation was developed within the European Climate Change Programme (ECCP), a programme launched by the EC in June 2000 to identify and develop all the necessary elements of an EU strategy to implement the Kyoto Protocol (http://europa.eu.int/comm/environment/climat/eccp.htm).

Zinc Risk Assessment

The zinc conclusion (I) research programme, designed to extend scientific understanding of bioavailability and develop quantifiers for bioavailability for use in risk assessment, has been successfully completed within the strict timeframe (18 months from September 2001) set by the Technical Meeting.

During 2002, the International Lead and Zinc Research Organisation (ILZRO) carried out, on behalf of the zinc sector and downstream sectors, including EUROFER, the studies required under this research programme. The research outcomes[8], allow for a significant reduction in the uncertainty related to the assessment of a possible adverse impact of zinc on the environment.

The Dutch rapporteur for the zinc risk assessment should issue an updated draft risk assessment report in 2003. The zinc sector and downstream users, including EUROFER, consider it essential that the results of their research programme are included in the updated report.

8: See for details: http://razinc.org/RA/Intro.htm.

Air Quality

Clean Air for Europe (CAFE)

CAFE is an EU program of technical analysis and policy development that will lead to the adoption of a thematic strategy under the **6th Environmental Action Program** in 2004. The programme was launched in March 2001, and its aim is to develop a long-term strategic and integrated policy to protect against adverse effects of air pollution on human health and the environment.

Among the working groups created within the EC to carry out the various tasks in this extensive program, the *Particulate Matter* (PM) working group is of great interest for the steel industry. It is aimed at supporting the EC review of **Directive 1999/30/EC** (the first daughter Directive, DD, of the Air Quality Framework Directive, 96/62/EC) and should:

- assess the air quality situation with regard to the PM limit values set in the 1st DD on air quality;
- review the content of the position paper on PM published in 1997 with regard to information obtained since;
- collect information on predictive studies on the attainability of the limit values, considering at the same time contributions from long-range transport and local sources.

The working group should also support the development of the CAFE thematic strategy by:

- considering the World Health Organisation work on health effects of PM with the aim to give recommendations for targets for integrated assessment;
- reviewing the results of the integrated assessment modelling work on PM.

To facilitate effective industry participation in the CAFE program, the Union of Industrial and Employers Confederations of Europe (UNICE) has developed a parallel structure of shadow groups to cover the same fields and contribute to the official work. EUROFER is participating in the UNICE PM shadow group and the UNICE Technical Modelling group. The policy on PM is recognized by EUROFER as being one of the most important issues within CAFE since the steel industry is identified as a considerable contributor to the emissions of PM and a revised standard may have large implications for the whole industry. The matter is therefore followed closely.

Regulation of Polycyclic Aromatic Hydrocarbons (PAH), Cadmium, Arsenic, Nickel and Mercury in Ambient Air

As required by the **Air Quality Framework Directive, 96/62/EC**, the EC is drafting a proposal for a **4th DD for the regulation of Polycyclic Aromatic Hydrocarbons (PAH), cadmium, arsenic, nickel and mercury in ambient air**. Partly as a consequence of intense joint lobbying by EUROFER, EuroInox, and Eurometaux, the current draft proposal foresees that EU Member States would be required to **monitor and report** on arsenic, cadmium, mercury and nickel levels in ambient air, instead of having to meet prescribed target or limit values. However, it foresees 1 ng/m^3 as a **target value** for benzo-a-pyrene (B(a)P), which is considered as a single marker for PAH. The proposal is still of major concern for EUROFER, mainly because of the proposed target value for B(a)P and the lack of standardised methodologies for measuring the relevant substances in ambient air. The final proposal is expected during the second quarter of 2003.

Waste

Definition of Waste

A clear definition of waste is still needed, especially with regard to scrap. The EC does not want to take any action before the European Waste Strategy becomes clear and this will take more than three years. It considers that scrap standardisation would be essential to its removal from the waste list

As the various EU Member States face actual problems, they are individually developing their own strategies to handle this issue. EUROFER and EFR (European Ferrous Recovery and Recycling Federation) argue that scrap should be considered as a secondary raw material and part of the UNICE/BDI (Federation of German Industries) proposal to change the waste definition concerns this subject. The most important consequences of scrap being considered as a waste is that steel plants could be misidentified as waste treatment plants, which is already the case in some Member States, and the implications for the shipment of scrap with increasing bureaucracy.

Revision of the European Waste Shipment Regulation

The revision of the **European Waste Shipment Regulation (259/93)** on the supervision and control of shipments of waste within, into and out of the EU, aims to simplify and reduce notification and authorisation procedural requirements. The revised Regulation will clarify that a ban on mixing different categories of waste would apply during shipment. It will also allow for EU Member States to block shipments of "green" waste, which is currently largely exempt from the export controls; and will require persons or corporate bodies wishing to export certain types of waste to provide a financial guarantee before shipment can be authorised.

The EC has now finalised the draft text and the joint efforts of EUROFER, Eurometaux and EFR seem to have been successful: the risk of the extensive bureaucracy associated with the shipment of scrap that could have been the consequence of the initial wording has decreased, and the wording is now more in line with the ordinary good procedures in the metal scrap trading sector.

Landfill

Despite more than three years of negotiations within the EC Technical Adaptation Committee, no final agreement on comprehensive criteria for the quality of wastes destined to be disposed of in different types of landfill was reached. Therefore, the EC acted on its own and the EU Council approved the EC proposal. The rules will serve as a crucial reference point for EU Member States to implement the 1999 Landfill Directive.

Under the agreed deal, strict EU-wide maximum pollution leaching limits will apply to the three different types of waste dumped in landfill: hazardous, non-hazardous and inert waste. EU national authorities will, however, be able to set national limits up to three times higher for individual landfill sites. To set such limits, they must carry out a case-by-case risk assessment for each site showing that there will be no additional environmental impact.

The objective of the steel industry has been to put slags on the positive list of inert wastes because of the risk of unfair competition on the market for construction materials. Despite hard work, this was not attained. Although not on the positive list, most slags fulfil the requirements for definition as "inert" after being tested. Every Member State is free to negotiate a procedure on how to deal with this nationally.

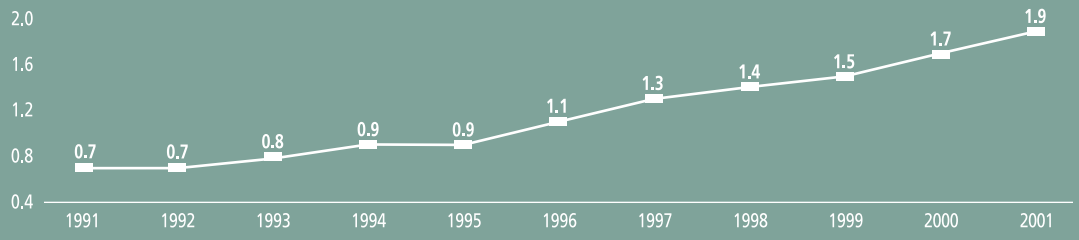
Management of Electrical and Electronic Waste; End-of-Life Vehicles

A major package of EU laws on the management of waste electrical and electronic equipment (WEEE) and the use of hazardous substances in electrical and electronic equipment (RoHS) has been completed.

The **Directive Restricting the Use of Hazardous Substances in Electrical and Electronic Equipment (RoHS/EEE)** will harmonise EU Member States laws and will ban intentional use of lead, mercury, cadmium and hexavalent chromium. The Directive exempts from the ban the use of lead as an alloying element in steel for certain applications, and hexavalent chromium used for preventing corrosion of carbon steel cooling systems in absorption refrigerators.

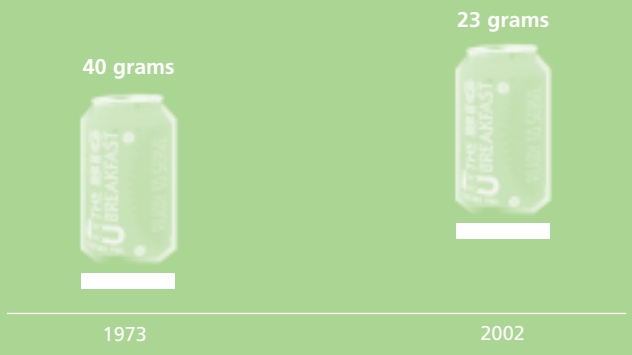
Steel Packaging Recycling in Europe (million tonnes)

Source: APEAL



33cl. Steel Can Body Weight in Europe

Source: APEAL



The exemption for substances "not intentionally introduced" in materials, incorporated in the **End of Life Vehicles (ELV) Directive** following requests by EUROFER and Eurometaux, does not appear in the final text of the RoHS/EEE Directive, even though the EC earlier expressed a will to make the Directives consistent in this aspect. The Technical Adaptation Committee will be approached, in a similar way as when it was working on the ELV Directive, to make the necessary amendments.

In the relation to the implementation of the ELV Directive, EUROFER has collaborated with the car manufacturing industry in incorporating standardised steel grades and coatings in the International Material Data System (IMDS).

Revision of the Directive on Packaging and Packaging Waste

The co-decision procedure for the revision of **Directive 94/62/EC on Packaging and Packaging Waste** continued in 2002 and 2003. Following the first reading in the European Parliament (EP), a common position was formally adopted by the Council of Ministers on 6 March 2003. Most of the EP amendments proposed, focused on revision of the recycling and recovery targets. In addition to increasing the targets and setting new material-specific recycling targets, the Council common position includes a requirement that packaging waste exported outside the EU should be recycled/recovered under conditions broadly equivalent to those prescribed in the EU. If this is not the case, waste exported for the purpose of recycling would not count towards the achievement of recycling targets.

Concerning packaging, EUROFER cooperates with the Association of European Producers of Steel for Packaging (APEAL). Although APEAL is still opposed to the introduction of material-specific targets, it supports the Council common position in many respects. The new recycling targets should be achievable by December 31st 2008 in the majority of EU Members States. On the other hand, APEAL regrets to see that no amendment was introduced concerning Article 5, allowing Member States to promote reuse without disproportionately distorting the internal market. This Article is the origin of most litigation involving the Packaging Directive and, therefore, there was an urgent need to amend it.

Energy

Political agreement on the proposal for a Directive restructuring the EU framework for the taxation of energy products was reached in March 2003. Energy taxation is, with ET, one of the policy orientations identified by the EC for the EU to reach the Kyoto Protocol targets.

The political agreement excludes from the scope of the Directive the so-called *dual use electricity*[9], and introduces the possibility for Member States to apply a level of taxation down to zero to energy products and electricity when used by energy-intensive businesses[10].

Businesses that benefit from these possibilities will enter into defined agreements, tradable permit schemes or equivalent arrangements. These must lead to the achievement of environmental objectives or increased energy efficiency, broadly equivalent to what would have been achieved if the standard Community minimum rates had been observed.

9: Dual use: electricity used principally for the purposes of chemical reduction and in electrolytic and metallurgical processes.

10: An energy-intensive business is defined as a business entity where either the purchase of energy products and electricity amounts to at least 3.0% of the production value or the national energy tax payable amounts to at least 0.5% of the added value.

Stainless Steel Producers Group

Company mergers and internal reorganisations in the companies have led to very reduced membership of the EUROFER Stainless Steel Producers Group (SSPG). However, the workload has increased dramatically, particularly because of the coming new mega-legislation for the management of all chemicals (including metals) in the EU. Thus, it became apparent during 2002 that, in order to work effectively and efficiently, there was a need to change the way of working and of managing the work in the SSPG. Therefore, a high level Steering Group (SG) was established to decide the main policies and priorities on health and environmental matters and to consider the best ways to achieve the ensuing objectives. The SG comprises senior technical/marketing managers from the main companies, and includes representation from the long products sector and EuroInox, and the chairperson of the SSPG; and it communicates with the raw materials (including scrap) suppliers and the International Stainless Steel Forum (ISSF). A further task of the SG is to facilitate effective upward and lateral communication on the defined SSPG priorities within the companies. It should thus be possible to ensure that relevant managers in the companies are aware of, and will make available, the required resources, particularly as regards expertise/membership of working groups.

SSPG work during 2002 was centred on the ongoing development of the EU "New Chemicals Policy" (NCP), into which all activity on the hazard classification of alloys/stainless steel has been subsumed. EUROFER participated in one of the seven EC Working Groups that were set up to develop recommendations/options for the NCP (the group on classification and labelling) and in the Eurométaux shadow groups for the others. In addition, a representative of EUROFER continued to chair the European Industry Metals and Alloys Classification Group that is working on the industry-wide NCP strategy for alloys; and she is a member of the ECETOC Task Force that is developing a targeted risk assessment approach to the assessment of chemicals. The need to involve the carbon steel sectors was recognised, and a EUROFER joint Working Group on the NCP started work in early 2003. It was expected that a draft NCP text would emerge from the Commission during 2002, but the only texts seen were some very early and undeveloped draft "building blocks" that were leaked.

Work also continued on the investigation of the carcinogenic potential of stainless steel: a programme of work designed to establish the actual properties of nickel-containing stainless steels themselves in the face of threats that the EU carcinogenicity classification of nickel may be increased. Preliminary and follow-up pilot studies, designed to provide basic data before embarking on Phase 1 of the main programme (i.e. metal release studies in media that simulate the interior of the lung) were completed by the appointed research team at the Royal Institute of Technology in Stockholm. The pilot studies have proved quite difficult as the media are complex and the metal release rates are very low. Phase 1 work will commence in 2003. This programme of work was transferred to the ISSF during 2002, but will continue to be managed by EUROFER, assisted by an ISSF support team.

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). This committee has 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"*.

The EDIFER Business Working Group (BWG) and the Technical Working Group (TWG), define the business processes for the scheduling and shipping cycles. For each of the processes, a set of transactions (business documents) was defined in a syntax neutral content and as XML messages. This has led to the official publication during 2002 of the **European Steel Industry Data Exchange Language (ESIDEL) XML standard version 1.0** of the order, order change, order response, delivery schedule and delivery just in time messages. This activity will be pursued further in 2003, in order to finalise the other cycles involved in the trade area, such as the scheduling, shipping, invoicing and payment cycles.

EDIFER has also been active in the development of user implementation guides for the EDIFACT standard messages for the European steel industry. These documents concern the information exchanges in the EDIFACT message standard of the ordering, scheduling, despatch and the invoicing cycles.

For the next two years (2003-2004), the following activities have been prioritised:

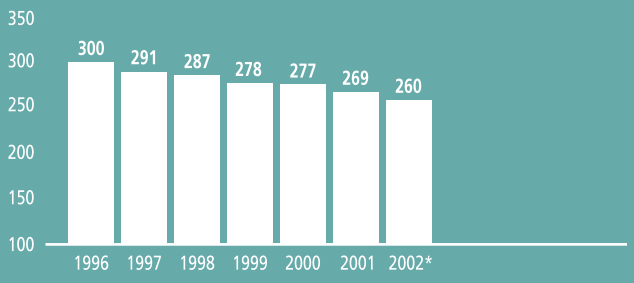
- the continued review and upgrading of the existing EUROFER user implementation guides for EDIFACT messages;
- active involvement in the development of the world-wide UN/CEFACT XML standard for e-commerce B2B;
- cooperation with organisations representing the European steel merchants and the European car industry, to create a common set of user implementation guides of XML information exchanges covering the trade area;
- cooperation with the Japan Iron and Steel Federation in the development of the ESIDEL standard.

All the publications, as well as the ongoing work on the ESIDEL standard, are available on the EUROFER website at http://www.eurofer.org/edifer/index.htm. Interested parties can participate actively in the development of these topics by providing their comments and suggestions on the published documents and the draft documents distributed for comments.

Human Resources

Employees in the Iron and Steel Industry ('000)

Source: Years 1996-2001 – Eurostat; 2002 – National Steel Associations



* Provisional data

Evolution and Employment

The continual restructuring within the EU steel producing industry, intended to increase productivity, reduce costs, and enable the industry to keep up with the challenges of globalisation and international competitiveness, has led to a fall of 8,800 in the total ECSC workforce in the steel industry in 2002. This number can be compared with 7,900 in 2001 and 1,300 in 2000. However, the social impact of this development has been eased by the increasing number of employees reaching retirement age in some EU countries.

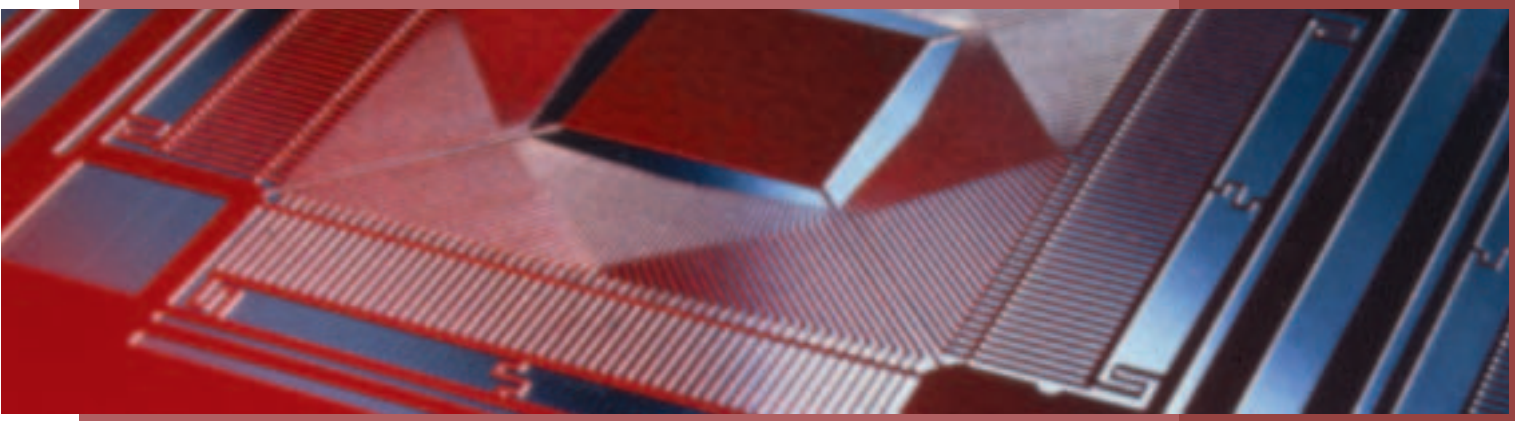
The continued endeavour towards excellence and improved economic results, to strengthen international competitiveness, indicates that the declining employment trend in the European steel industry will persist. However, the significantly increased numbers of natural departures expected in several countries during the next few years, indicate that this will take place without significant social cost. It is likely 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 Restructuring

In September 2001, EUROFER signed a contract with the EC that entrusted it with the management of a pilot project created by the European Parliament with the purpose of supporting the development of new activities and the creation of new jobs in regions affected by steel industry restructuring. The project set up a "Guarantee Fund", to be run by EUROFER, in order to increase the availability of loan and equity financing available to small and medium enterprises (SMEs) operating in these regions.

To comply with its mission, in the course of 2002 EUROFER selected financial intermediaries with solid experience in the field, in four countries: Sodie, in Belgium and France, Dortmund Venture Capital in Germany, and UK Steel Enterprise in Great Britain. At the end of 2002, the Guarantee Fund had already supported 55 projects financing the creation or growth of SMEs, worth close to € 5 million.

Communication



Publications

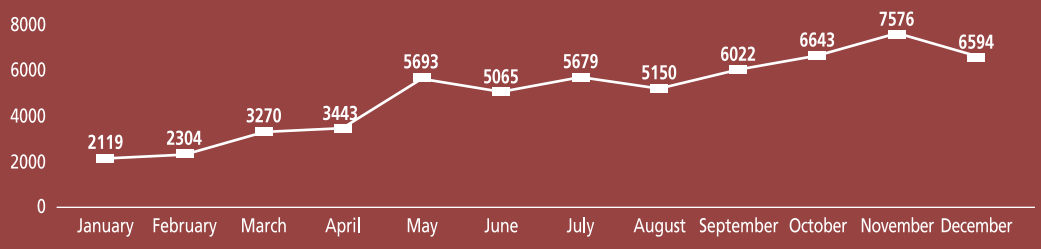
Is freight transport on the right track? The brochure **Transport of steel in the European Union** illustrates the development of the freight transport system used by the European steel industry, at both European and country levels. The position of the steel industry vis-à-vis the White Paper of the EC *"The European Transport Policy for 2010, time to decide"* is also included.

Networking in European Steel Research is a booklet – also available on CD-ROM – providing information about existing steel Research and Development networks in Europe (i.e. steel companies, universities, research institutes, etc.). Its production was part of the EU-funded thematic network NEST (New Efficient Steel Technologies), which was concluded in 2002 after three years of operation.

Publications (free of charge) can be ordered at http://www.eurofer.org/ publications/index.htm

EUROFER website: visitors in 2002

Source: Urchin



EUROFER Website

The number of users of the EUROFER website (http://www.eurofer.org) increased continuously over the year. In the 4th quarter, the average of visitors was about 7,000 per month.

In addition to regular updating (i.e. statistics, market report, etc.), the section **EDIFER** was developed in 2002. This sector is focused on the development of ESIDEL, the official name of the EUROFER XML standard (see chapter EDIFER).

Transport

Rail

The volume of freight transported by rail within the EU decreased in 2002, with the exception of Belgium (+3%) and Austria (+1.5%). Although rail lost some ground to road and water (sea and inland) transport, it remains the main mode of transport used by the European steel industry. About 20% of metal products are transported by rail every year.

The railway freight system suffers from having an outdated infrastructure; and the quality of service offered by railway companies is generally poor. This is mainly due to the low level of investment over the last twenty years. One of the measures that could be envisaged to improve the rolling stock, and is supported by the European steel industry, is the creation of polyvalent wagons, which could be used by different industrial sectors.

Road

Revision of Road Transport Contractual Clauses

In some EU countries, discussions took place concerning the legality of the revision of compulsory road transport contractual clauses. Some carrier companies (e.g. in Belgium) would like road transport contracts to include a compulsory clause for price revision indexed to costs. In some countries (e.g. The Netherlands) similar clauses are already in force, but they only concern the price of oil; other costs such as wages, night transport and reduction of work duration are not included. EUROFER expressed reservations regarding the possibility of an increase in the cost of road transport within the EU. It could generate a real effect on the competitiveness of European products, especially if compared to other competing areas, in particular the US, where a downward trend in transport costs has been registered in recent years. In addition, especially for steel products, transport costs would be too high relative to the value of the products transported.

Harmonisation of National Rules

Some EU countries have adopted initiatives which have a strong impact on road transport activity. The 35-hours-per-week working-time regulation and limitations on the operation of lorries during the weekends are a couple of examples. The fact that these initiatives were implemented only at a national level led EUROFER to strengthen contacts with the EC in order to push towards the harmonisation of these rules within the EU.

Water

In the context of anti-terrorism measures, the authorities of the US adopted some rules strengthening their control of imports by sea. These measures led to an increase in administrative requirements and consequently had a significant impact on the transport of steel products by sea, (e.g. the compulsory arrival of freight 24 hours before being loaded onto merchant freighters).

Nevertheless, even though the volume of freight transported by sea remained stable in 2002, transport by container increased dramatically. The ports of Antwerp and Valencia registered increases in traffic of 15% and 20% respectively.

Statistics

Whilst the ECSC Treaty expired on 23 July 2002, Eurostat, the Statistical Office of the European Communities, continued the direct collection of iron and steel statistics and their publication until the end of the year, to complete the annual series.

As from January 2003, the collection of official steel statistics, now performed by Member States, has been reduced to the following items:

- annual statistics on scrap consumption, energy consumption, capacities and new investments;
- monthly production of steel products, in accordance with the *Prodcom* (PRODucts of the European COMmunity) regulation.

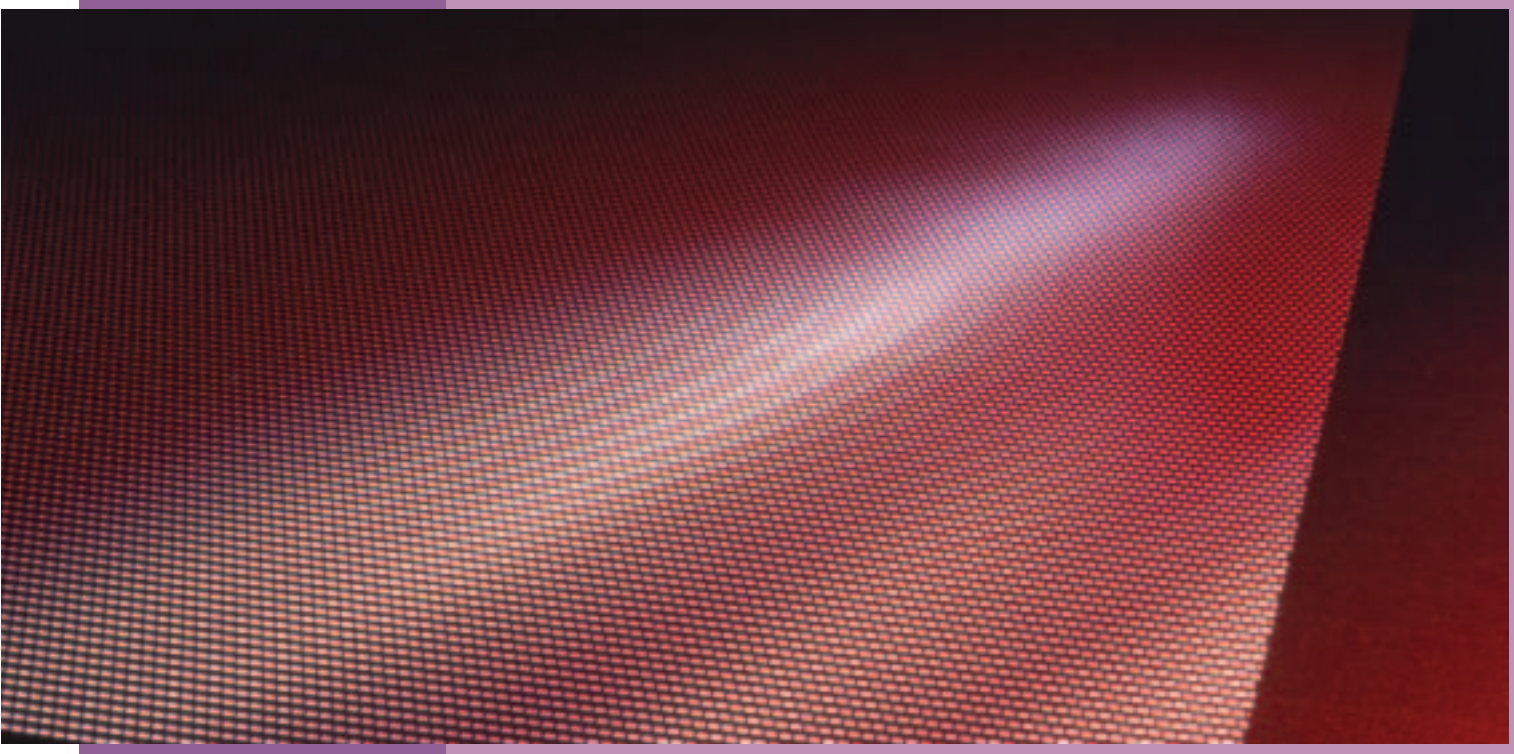
It is expected that these official statistics will not satisfy the requirements of the steel industry in terms of quality, exhaustiveness and timeliness of feedback information. For this reason, in 2002, the EUROFER Statistics Committee finalised production and commercial questionnaires that were disseminated to EUROFER member companies and national associations for implementation as from January 2003 in a voluntary framework designed to supplement the official system.

As regards official trade statistics, during 2002 the EUROFER Statistics Committee had repeated contacts with the EC Directorate-General for Taxation and the Customs Union regarding the finalisation of the review of the Combined Nomenclature (product classification) used to record import/export movements between the EU and third countries and between the EU Member States.

The new classification to be implemented in January 2004 will be significantly simplified as ECSC product distinctions and many tariff differentials will disappear. Simultaneously, some new product subdivisions will be introduced to mirror technological and market developments.

In order to make it more user-friendly, the EUROFER Statistics Committee has also actively promoted a radical restructuring of the steel chapter in the Harmonised System, the trade classification used on a world-wide basis. The first reaction of the international Customs Code Committee was not favourable to the fundamental change of approach that was suggested, but the EUROFER Statistics Committee remains committed to the new concept and will continue its promotion in 2003.

Annexes



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Riva	http://www.rivagroup.com
Saarstahl	http://www.saarstahl.de
Salzgitter	http://www.salzgitter-ag.de
Sidenor	http://www.sidenor.gr
Siderurgia National	
ThyssenKrupp Steel	http://www.thyssen-krupp-steel.com
Voestalpine	http://www.voest.co.at

National Associations

AUSTRIA	**Fachverband der Bergwerke und Eisen erzeugenden Industrie** http://www.wk.or.at/bergbau-stahl
BELGIUM	**Groupement de la Sidérurgie – GSV** http://www.steelbel.be
FINLAND	**Metallinjalostajat** (Ass. of Finnish Steel and Metal Producers) http://www.teknologiateollisuus.fi/metallinjalostajat
FRANCE	**Fédération Française de l'Acier** http://www.ffa.fr **Chambre Syndicale des Producteurs d'Aciers Fins et Spéciaux** http://www.spas.fr
GERMANY	**Wirtschaftsvereinigung Stahl** http://www.wvstahl.de **Edelstahl – Vereinigung** http://www.stahl-online.de/stahl_zentrum/edelstahl_vereinigung_e_v.htm
GREECE	**Hellenic Steelmakers Union – ENXE**
ITALY	**Federacciai** http://www.federacciai.it
SPAIN	**Unión de Empresas Siderúrgicas – UNESID** http://www.unesid.org
SWEDEN	**Jernkontoret** http://www.jernkontoret.se
UNITED KINGDOM	**UK Steel** http://www.uksteel.org.uk

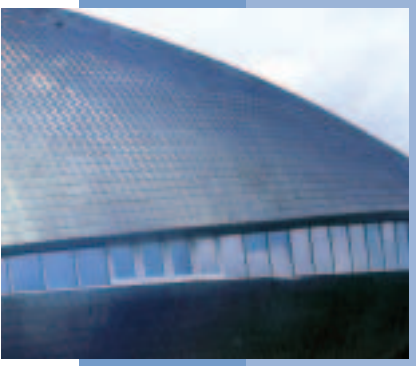
Associate Members

Companies

Çolakoglu Metalurji	http://www.colakoglu.com.tr
Diler Demir Çelik Endüstrisi ve Ticaret	http://www.dilerhld.com/diler_demircelik/index.html
Dunaferr	http://www.dunaferr.hu
ERDEMIR– Ereğli Demir ve Çelik Fabrikalari	http://www.erdemir.com.tr
HABAŞ– Sinai ve Tibbi Gazlar Istihsal Endüstrisi	http://www.habas.com.tr
Huta Czestochowa	http://www.hcz.com.pl
Huta im. Tadeusza Sendzimira	http://www.hts.com.pl
IÇDAŞ Çelik Enerji – Tersane ve Ulaşim Sanayi	http://www.icdas.com.tr
IDÇ – Izmir Demir Çelik Sanayi	http://www.idcsteel.com
Isdemir – Iskenderun Demir ve Çelik Fabrikalari	http://www.isdemir.com.tr
ISPAT NOVÁ HUŤ	http://www.novahut.cz
ISPAT Sidex	http://www.sidex.ro
JSC Liepâjas Metalurgs	http://www.metalurgs.lv
Kremikovtzi	http://www.kremikovtzi.com
Slovenske Zelezarne	http://www.sl-zel.si
Swiss Steel	http://www.swiss-steel.com
Třinecké Železárny	http://www.trz.cz
U.S. Steel Kosice	http://www.usske.sk
Vitkovice Steel	http://www.vitkovice.cz

National Associations

BULGARIA	Branch Chamber of Ferrous and Non-Ferrous Metallurgy
CZECH REPUBLIC	Hutnictvi Železa http://www.hz.cz
HUNGARY	Magyar Vas- és Acélipari Egyesülés http://www.mvae.hu
POLAND	Metallurgical Chamber of Industry and Commerce http://www.hiph.com.pl
ROMANIA	Uniunea Producatorilor de Otel din Romania – UniRomSider
TURKEY	Demir Çelik Üreticileri Dernegi – DÇÜ http://www.dcud.org.tr



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