EUROFER

European Confederation of Iron and Steel Industries

Annual report 2003

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 Eastern European Countries (CEECs), Switzerland 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.

Content

Introduction

steel for the improvement of human performance

Demand in the steel market in the EU in 2003 was sluggish, slightly improving only in the fourth quarter. Crude steel production therefore rose by only 1% to 160 million tonnes. In 2004 a moderate increase of real consumption is expected, probably close to 3%. This picture for Europe is in sharp contrast to the situation elsewhere particularly in China where, driven by strong economic growth, steel production increased in 2003 by 40 million tonnes to 220 million tonnes, which is 23% of world steel production. A further strong increase is expected this year despite efforts by the Chinese government to cool down the pace of growth. The emergence of China as a major steel consumer and producer has had a significant impact on the world steel industry. Firstly, China has become a major importer of steel products and this is continuing. Secondly, prices of raw materials have risen enormously. Prices for iron ore, coke, ferro-alloys, scrap and sea freight rates have reached unprecedented levels. As a direct consequence of these rising cost elements but also increasingly as a consequence of the altered market situation which has resulted from the appearance of China and the improving economic situation in the US and elsewhere, prices for finished steel products have risen worldwide, although more rapidly and to a greater extent elsewhere than in the EU.

EUROFER is concerned by the increasing and cumulative EU legislation, particularly in the field of environmental protection, which imposes burdens which often go far beyond those in other regions of the world. The European steel industry is committed to sustainable development and to a continuous improvement of its environmental performance. It has an excellent track record in this respect. The steady reduction of energy requirements and carbon dioxide emissions achieved so far are clear examples for the steel industry's efforts. Unfortunately, instead of voluntary or negotiated agreements, a compulsory Emission Trading System has been decided. The scheme which is about to be introduced will result in a distortion of competition, in a loss of business to non-EU competitors, in a substantial increase of electricity prices, and will impede economic growth. Furthermore, companies with production sites in different EU countries will be penalised and there is a risk of delocalisation of production to third countries not subject to emission limitations. The negative impact on competitiveness of the industry, on employment in the EU and on global CO_2 emissions is obvious. In order to rebalance the different policy objectives of the EU, a revision of the current Climate Change Policy is necessary. The excessive and unjustified prioritisation of environmental measures imposed by the European authorities on some industries at the expense of their competitiveness must be ended.

The European steel industry will face important challenges resulting from the globalisation of the steel market, the necessity to respond to ever more demanding markets, the need for a clear commitment to save natural resources and, in particular, to reduce CO_2 emissions further. To meet these challenges, long-term structured action supported by the participation of all stakeholders is required. In particular, environmental issues and the development of new steel solutions for many applications will require the implementation of new production routes. In this respect, break-through technologies will be of particular importance implying increased efforts in R&D and innovation. The issues of security and competence of human resources must also be developed. These are the reasons why EUROFER and the European Commission have set up the "European Steel Technology Platform". Its mission is to develop a long-term strategic research agenda for steel in close co-operation and partnership with customers, suppliers, research centres, universities, trade unions and public authorities. This will be an important contribution to secure the future of both the steel industry and the steel consuming industry in Europe.

Guy Dollé
President

Dietrich von Hülsen
Director General

General Economic Development

s u s t a i n a b l e

The performance of the European economy in 2003 was far from satisfactory. While the economy did appear to reach a turning point in the third quarter and growth gained momentum in the fourth quarter, the expansion was far from dramatic. Forecasts for GDP growth were continuously scaled back throughout the course of the year and GDP for the year as a whole showed a growth of only 0.6%.

There are several reasons behind this disappointing economic performance and the delay in the recovery that had been expected to start earlier in the year. Principal among these were the weak consumer and business confidence due to tensions linked to the Iraq war. Factors such as stock market fluctuations, uncertainties over pensions and unemployment combined to drive confidence down. Government deficits widened significantly constraining the ability of official action to stimulate growth.

A major feature of the downturn was the sharp reduction in investment. With corporate profitability under pressure, demand conditions poor and low capacity utilisation, there was little incentive for business to invest. Most components of aggregate demand in Europe therefore were weak. This resulted in a gradual improvement at a low level, during the second half of the year, partly as a result of accommodative macroeconomic policy conditions low interest rates, some fiscal loosening and supportive financial conditions.

However, mainly due to the Chinese and Asian economies powering ahead and recovery increasingly taking hold in the US, it was strengthening international demand that was the principal factor driving recovery in Europe during the second half of the year.

Development of Certain Elements of the EU Economy
Yearly Variations in %
Source: Official data and estimations of the European Commission

	2002	2003	2004 (forecast)
GDP	0.8	0.6	1.9
Private consumption	1.1	1.3	1.6
Investments	-3.2	-1.1	2.8
of which: **Investments in equipment**	-4.8	-1.3	2.7
Exports	1.0	0.1	5.0
Imports	-0.3	2.2	4.9
Unemployment rate	7.8	7.9	7.9
Inflation	2.0	2.0	1.9

Steel Market

solution based

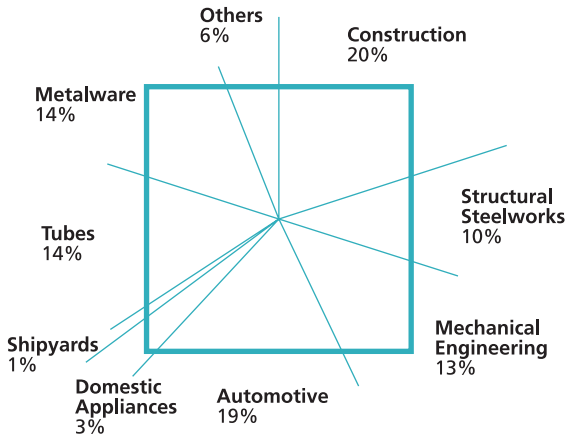
Consumption

The gloomy economic outlook and the general lack of growth kept output by steel using sectors subdued throughout the year, showing only gradual improvement in the latter part of the year. Demand on domestic markets remained sluggish. The index of activity of the steel using sectors contracted in the first six months of the year to a degree which was greater than expected due to the much weaker performance of certain sectors such as structural steelwork, mechanical engineering and tubes. This contraction reduced for most major sectors in the second half of the year but generally not until the fourth quarter. Sectors which depend directly on industrial investment levels – mechanical engineering and metalware – were hardest hit by the reduction in investment levels but were also well-placed to benefit from the rise in international demand particularly for equipment goods which began to be felt towards the end of the year and would lead to a sharp rise in their output levels early in 2004.

Real consumption fell in 2003 for the third year running. Only the fourth quarter showed positive figures and for the year as a whole consumption fell by 0.8%. With consumer activity rather low, delays in ordering coupled with the adjustment of stocks levels downward, apparent consumption improved only very modestly in the second half of the year. However, with domestic producers cutting production and deliveries in response to the poor market conditions, this growth in apparent consumption was largely to the benefit of importers.

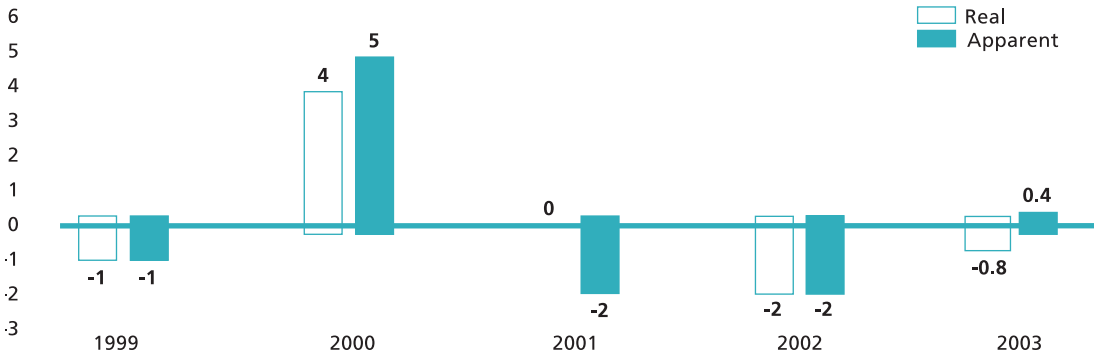
Share of Consumption by Steel-using Sector

Source: EUROFER



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

Source: EUROFER



Steel Market

Imports

Imports in 2003 rose by 9% to 24 million tonnes, a record level. Typically, prior to the Asian crisis, the EU imported about 12 million tonnes of steel products. Import levels therefore have about doubled since 1997. This demonstrates not only the openness of the EU market to trade but also, its vulnerability to developments elsewhere in the global market. 2003 was a year of subdued demand for steel products in the EU in a context of a rather weak economic environment. There was nothing in the development of demand in Europe which would have acted as a strong draw to imports.

Nevertheless, during the course of the year, there were strong surges of imports of certain products as a result of events in other parts of the world. The Iraq crisis reduced demand for long products in the Middle East which, together with a poor domestic market, led Turkish producers to target the EU market. During the course of last year there was an extremely disruptive spike in their deliveries of rebar and wire rod to the EU market. Similarly the pause in purchasing in China, for a very brief period, led almost immediately to the offering of distressed cargoes of, principally, hot rolled coil on the European market and a diversion of significant volumes. The continued strong development of China is a major opportunity for European producers, but any interruption in this growth pattern clearly has implications for European steel.

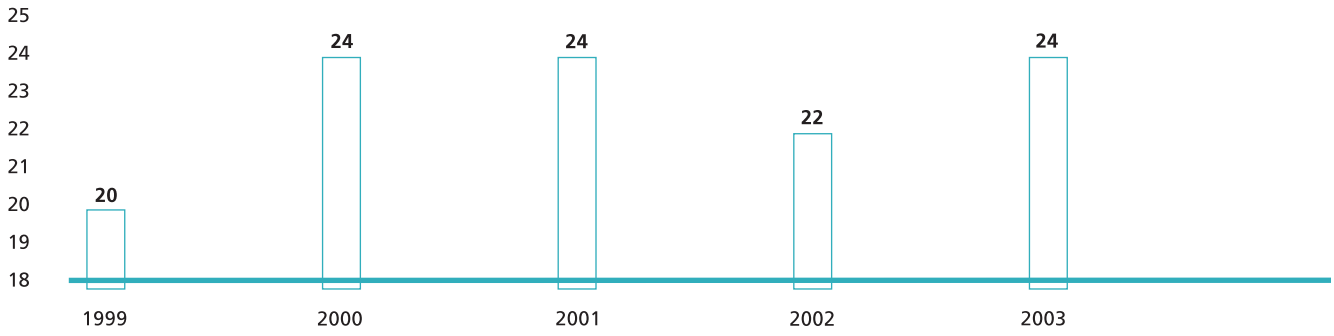
Exports

Currency fluctuations were an element which influenced trade in 2003. The sudden appreciation of the Euro vis-à-vis the US-Dollar did, for a period, make prices in Europe attractive to exporters elsewhere, even exceptionally exporters from the US, and was a factor drawing imports into Europe.

Furthermore, currency fluctuations threatened to undermine the efforts of EU producers to maximise the potential of export markets given the weakness of demand at home. However, such was the dynamism of demand, particularly in China and Asia, that the temporary loss of competitivity was not a significant hurdle to overcome. Exports from Europe rose to just over 24 million tonnes, arriving at a level just below that of imports and therefore almost restoring the positive trade balance in steel products which existed up to 1997.

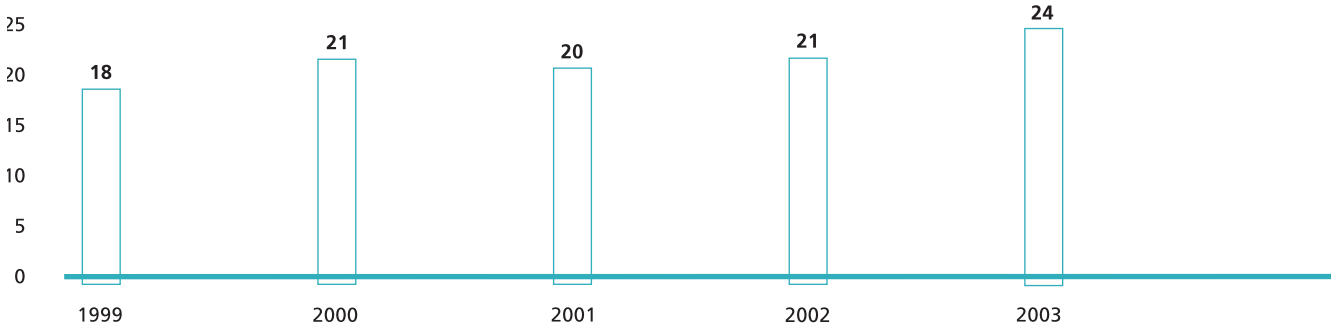
Finished Products Including Semis: Imports (million tonnes)

Source: Comext – Eurostat



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

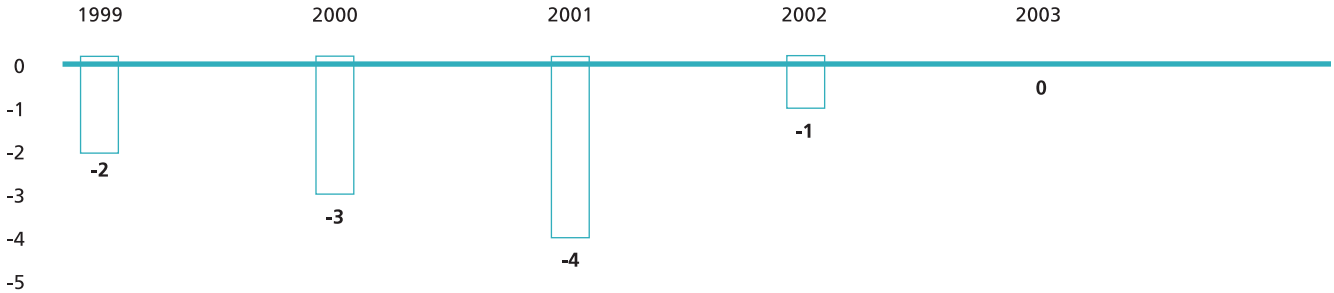
Source: Comext – Eurostat



*trade balance = exports-imports

Finished Products Including Semis: Exports (million tonnes)

Source: Comext – Eurostat



Steel Market

Deliveries of Carbon Steels

Total deliveries of carbon steel (defined as non-alloy and alloy steels other than stainless) in 2003 remained close to the 2002 level. This is due to the combination of a slight decrease of deliveries within the EU and a considerable increase of exports outside this area.

Carbon steels deliveries:	**+0.5%**
of which to EU markets:	+1.1%
of which to export markets:	+14.6%

Flat Products

The absence of a substantial development of the European economy during 2003 resulted in a decrease of the apparent consumption (-2.2%). Imports from third countries were also reduced but to a lesser extent (-1.3%).

Due to the stagnation in important industrial sectors (e.g. automotive and construction) and the reduced activity in others like mechanical engineering, domestic appliances, tubes and shipyards, the deliveries from European mills within the EU fell by 2.4%. This downturn was compensated by the high amount of exports to third countries.

Flat products deliveries:	**+0.4%**
of which to EU markets:	-2.4%
of which to export markets:	+23.5%

The price recovery in the EU started in the second quarter 2002 and continued at the beginning of 2003. A temporary weakening of the prices occurred in the middle of the year, but was recovered during the fourth quarter.

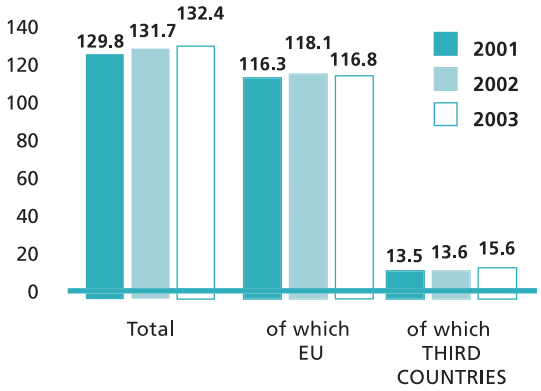
During 2003, the decrease of deliveries within the EU affected almost all flat products: cold rolled sheet (-0.7%), coated sheet (-2%), black and tinplate (-4.2%), hot rolled flat product (-4.3%) and notably electrical sheets (-9.9%). Only quarto plate and wide flat showed a moderate increase (1.5%).

The substitution of uncoated cold rolled sheets by coated material remained at the same level as 2002. This was mainly due to the stagnation of the automotive sector. The substitution of electro-zinc coated sheet by hot dipped galvanized sheet continued, but in absolute terms the deliveries of hot dipped material showed a small reduction after six years of a steady growth. The negative trend of 2002 for the organic coated sheet continued due to the weak demand of the construction sector.

Despite the strengthening of the Euro versus the US-Dollar and the import restrictions of several third countries, exports in 2003 rose by 23.5%. Indeed, some geographical areas drastically increased their demand such as: China (+273%), Near and Middle East (+71%), South-East Asia (+76%) and Eastern Europe (+28%). Export to the US decreased by 30% compared to the previous year, due to the application measures under the Section 201. An increase of exports was noted for all flat products.

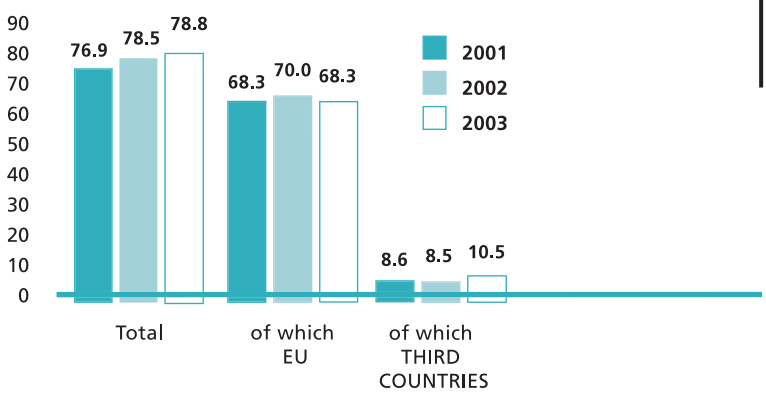
Carbon Steels: Total Deliveries (million tonnes)

Source: EUROFER



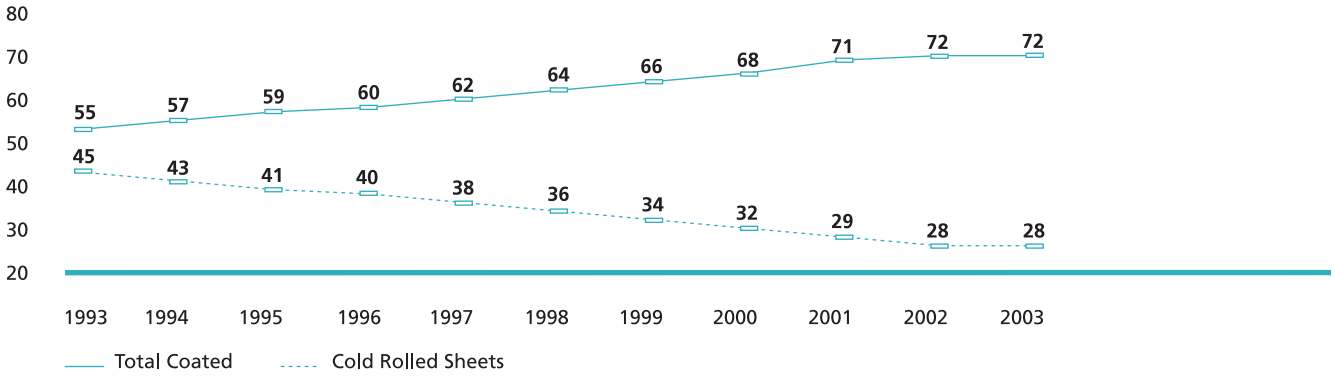
Carbon Steels: Flat Products Deliveries (million tonnes)

Source: EUROFER



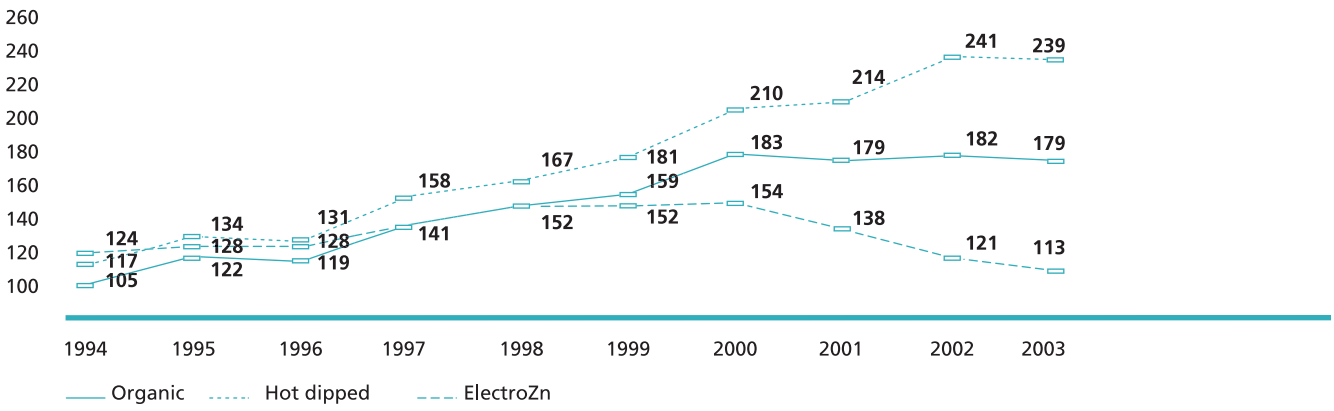
Carbon Steels: Deliveries Structure of Cold Rolled Products (in %)

Source: EUROFER



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

Source: EUROFER



Steel Market

Long Products

The market supply of long products in the EU rose by 2.7%. This development was the result of the massive increase of imports from third countries (+18%). The European mills participated only with a moderate improvement of their EU deliveries by 0.9%. Exports to third countries remained at the same level as 2002 (5.1 million tonnes).

Long products deliveries:	**+0.7%**
of which to EU markets:	+0.9%
of which to export markets:	-0.3%

Deliveries within the EU increased for merchant bar (+3.1%), reinforcing bar (+2.9%) and sheet piling (+12.4%). While those for wire rod (-0.7%), heavy section (-0.2%) and railway material (-18%) fell.

Prices continued to increase in the first quarter 2003 but weakened, depending on the product, in the second and third quarters. In the fourth quarter prices remained stable.

Total deliveries to third countries remained at the same level as 2002. The improvement in the exports of some long products (reinforcing bar +18.2%, heavy section +8.8%, railway material +18.4%) was counter-balanced by the decrease in the exports of wire rod (-16.1%), sheet piling (-8%) and merchant bar (-1.9%). Geographically, the positive trend in the Near and Middle East (+65.1%), China (+14%) and Easter Europe (+12.5%) was counter-balanced by a decrease in America (–26.1%) and South East Asia (–3.7%).

Deliveries of Special Steels

During 2003, the trend in demand for special steels was strongly influenced by the lack of economic recovery in most European countries and, during the second half of the year, by the increased price of raw materials.

Deliveries of special steels increased by 0.7%, a minor improvement attributable to the expansion of exports to third countries (+7.5%), whereas deliveries to the EU market decreased by 0.8%.

Stainless Steels

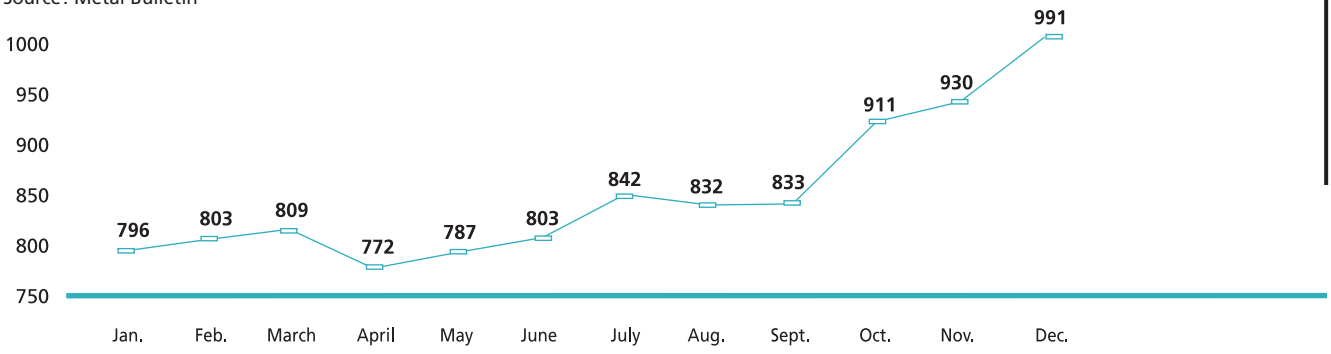
For stainless steels (long and flat products), the situation in 2003 was the following:

Total deliveries:	**+0.5%**
of which to EU markets:	-2.0%
of which to export markets:	+8.9%

The uncertainties over the economic outlook and the strengthening of the Euro versus the US-Dollar generated a lack of dynamism in most of the consumer sectors during the first half of the year. In view of the weakness of final demand, both stockholders and end-users reduced inventories to the minimum level necessary for sustained business activity.

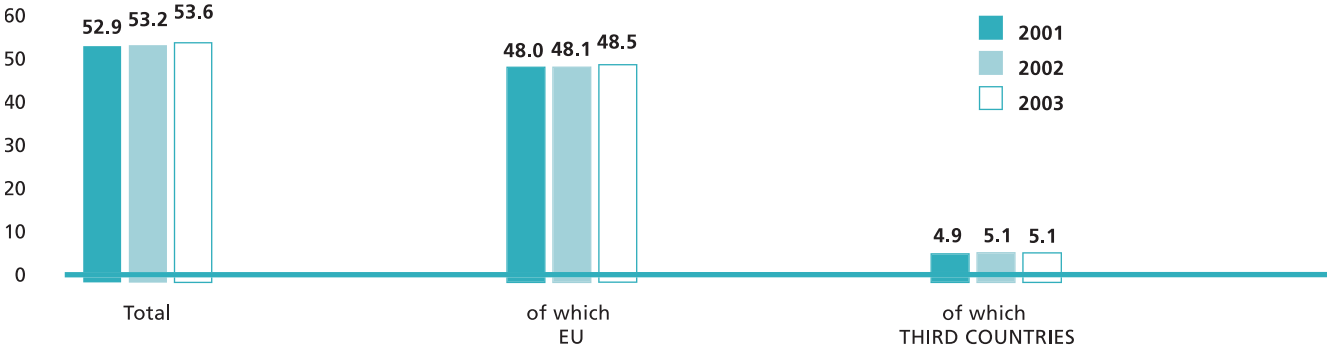
Zinc: Monthly Development of Quotations in 2003 (US$/tonne)

Source: Metal Bulletin



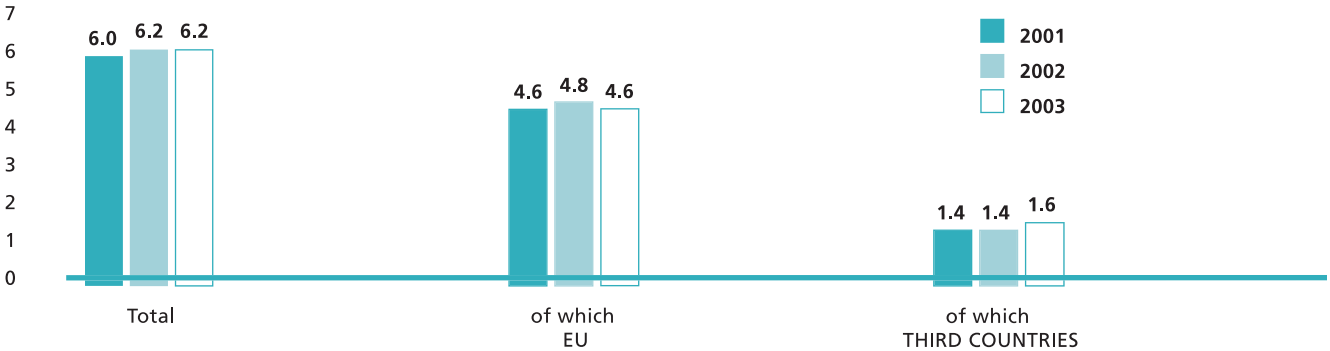
Carbon Steels: Long Products Deliveries (million tonnes)

Source: EUROFER



Stainless Steels: Development of Deliveries (million tonnes)

Source: EUROFER



Steel Market

Short-term demand started to pick-up in summer as customers were faced with the prospect of rising prices. This occurred as the result of the sharp increase of raw material prices on the international market and rumours of possible short supply, especially for nickel. During the 4th quarter of 2003, orders and deliveries returned to normal levels.

The key factor explaining the stability of the global delivery level was the strong boost given by the Chinese stainless steel consumption, which recorded impressive growth rates throughout 2003 and attracted a sizeable share of the higher volumes, exported by the EU producers of stainless steels flat products.

The year 2003 showed, once again, a contrast between flat and long products. Whilst total shipments by EU flat products manufacturers grew by 2.5%, exceeding 5 million tonnes, total European producers' deliveries of hot rolled long products fell by 7%. Stainless steel wire rod mostly suffered from stagnation in the end-user sectors (e.g. the fasteners industry), whilst other downstream sectors (e.g. bright bars) had a better development.

Imports from third countries continued to grow in both the stainless steel cold rolled flat products and the wire rod market segments. Import penetration in the EU has now reached 10% of the cold rolled flat products market, a development which is a growing source of concern for EU producers.

Alloy Engineering, Tool and High Speed Steels

Despite the fact that European economy did not show any significant upturn, the level of activity in this product range was positively oriented. Its main consumer sector, the automotive industry, continued to generate a sustained demand fuelled by strong export business and the imminent release of new models. Compared to 2002, the EU market supply for alloy engineering steel long products grew by 3.3%. Deliveries from EU producers increased by 1.9% and imports from third countries by 26.4%. The market for steel bar was the main driver of this positive development with a growth of apparent consumption, year-on-year, of 10.8%.The semi-finished products and wire rod markets had a weaker growth.

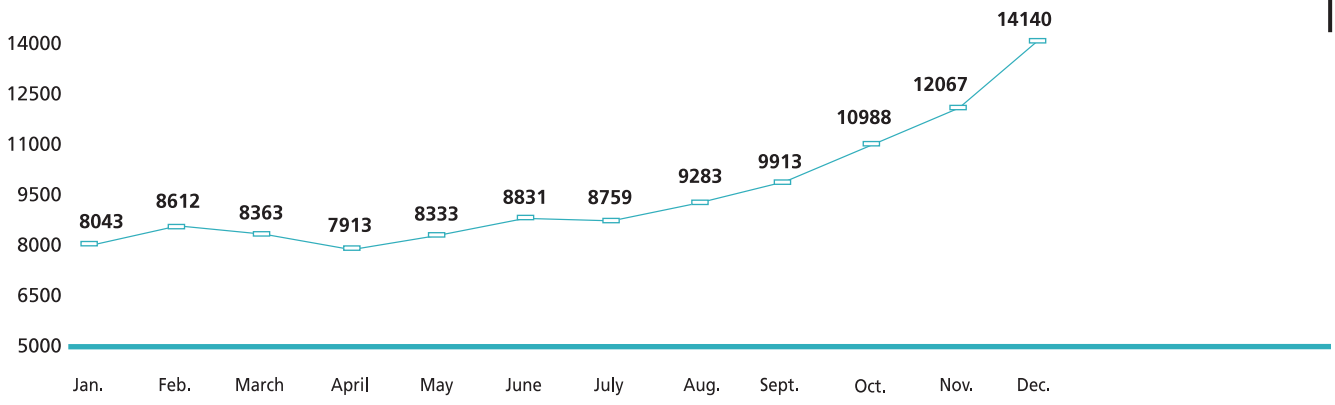
Deliveries of tool steels by EU producers increased by 2% in 2003, whereby the main growth was recorded on export markets with a +6%. This reflects the fact that the globalisation of end users and, to some extent, the transfer of manufacturing businesses to emerging markets, were also producing lasting changes in trade flows, worldwide.

Engineering, tool and high speed steels total deliveries:	**+1.0%**
of which to EU markets:	+0.7%
of which to export markets:	+4.3%

The order received in the first part of 2004 indicated a stable activity at a satisfactory level.
The growth in demand in the second half-year 2004 is difficult to predict as it may be influenced by the strong impact of soaring raw material costs on sales prices, the Euro/US-Dollar exchange rate fluctuation and its consequences for the Euro-zone export performance, the timing of a revival of activity in the mechanical engineering sector and the underpinning effect of the growth in the Asian and US markets on world trade.

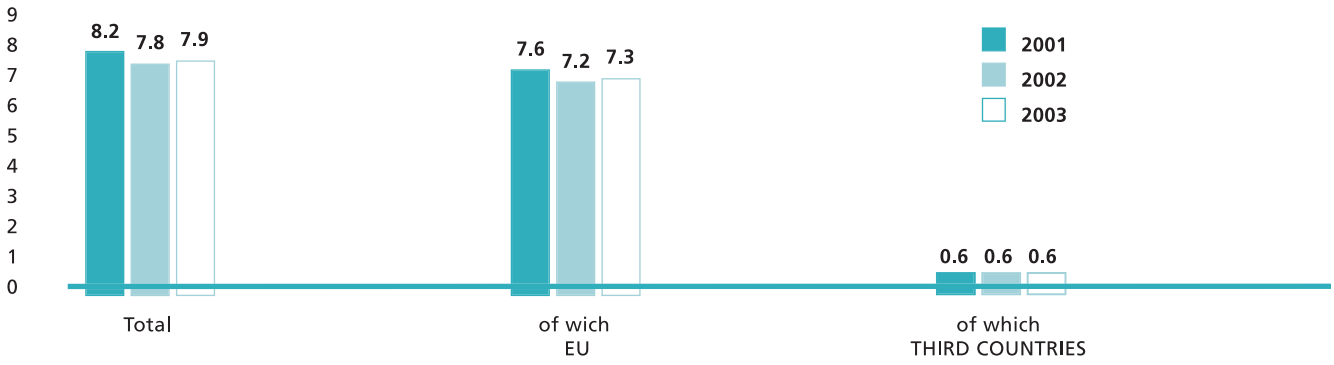
Nickel: Monthly Development of Quotations in 2003 (US$/tonne)

Source: Metal Bulletin



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

Source: EUROFER



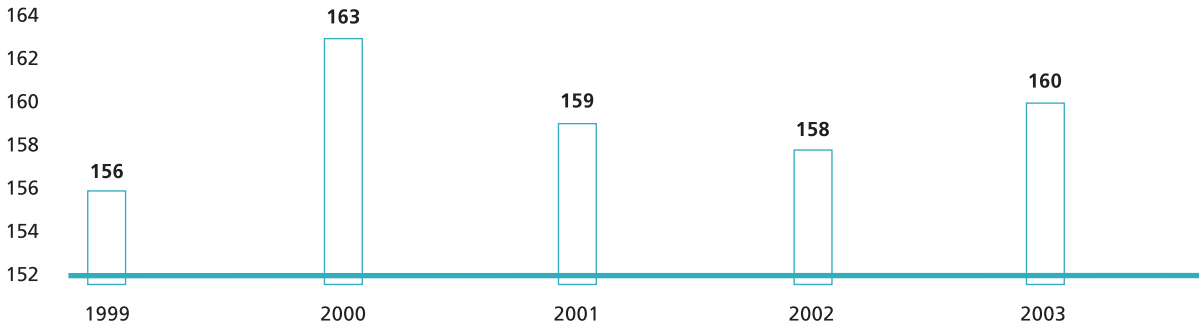
Steel Market

Crude Steel Production

At a level of 160.4 million tonnes the crude steel production in the EU showed only a modest increase of 1.3%, compared to the year 2002.

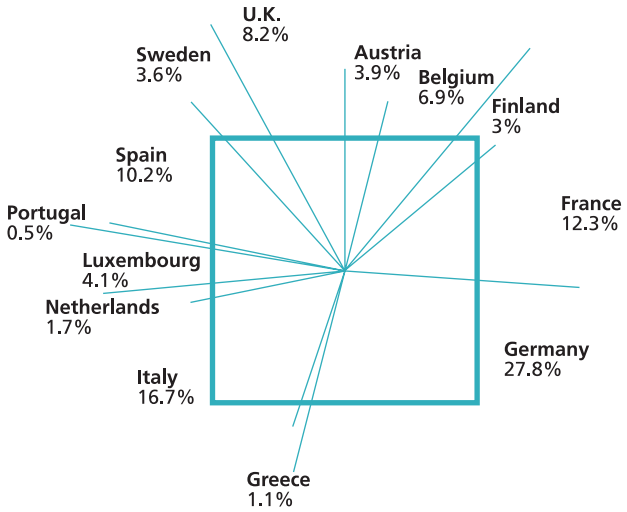
EU Crude Steel Production (million tonnes)

Source: EUROFER



EU Crude Steel Production Geographical Breakdown

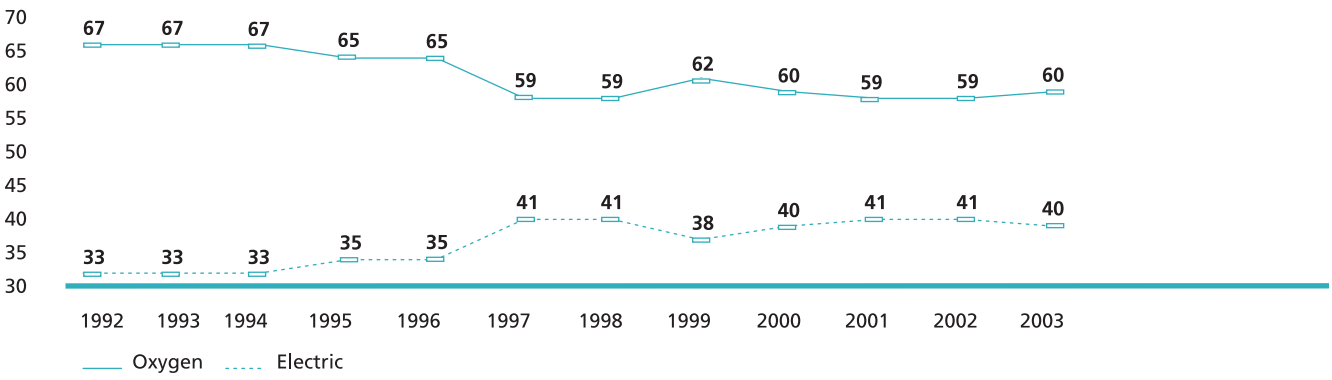
Source: EUROFER



EU Crude Steel Production (million tonnes)
Source: EUROFER

EU COUNTRIES	2003	2002	2003/02 (% changes)
Austria	6.3	6.2	1.6
Belgium	11.1	11.3	1.8
Denmark	0.0	0.4	-100.0
Finland	4.8	4.0	20.0
France	19.8	20.3	-2.5
Germany	44.8	45.0	-0.4
Greece	1.7	1.8	-5.6
Ireland	0.0	0.0	0.0
Italy	26.8	25.9	3.5
Luxembourg	2.7	2.7	0.0
Netherlands	6.6	6.1	8.2
Portugal	0.7	0.8	-12.5
Spain	16.3	16.4	-0.6
Sweden	5.7	5.8	-1.7
United Kingdom	13.1	11.7	12.0
EU 15	**160.4**	**158.4**	**1.3**

EU Crude Steel Production by Process
Source: EUROFER

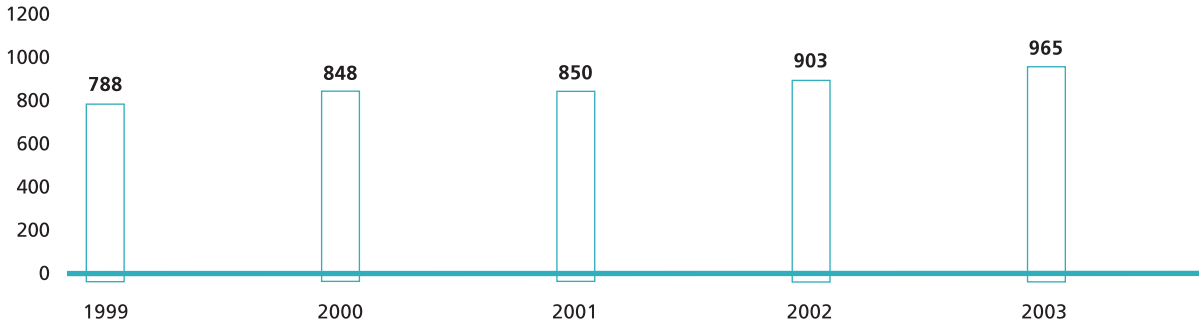


Steel Market

In 2003, world steel production was 965 million tonnes (+6.9%) and is expected to exceed one billion tonnes in 2004. China, as the largest producer in the world, reached 220 million tonnes, representing a growth of 20.9% compared to 2002.

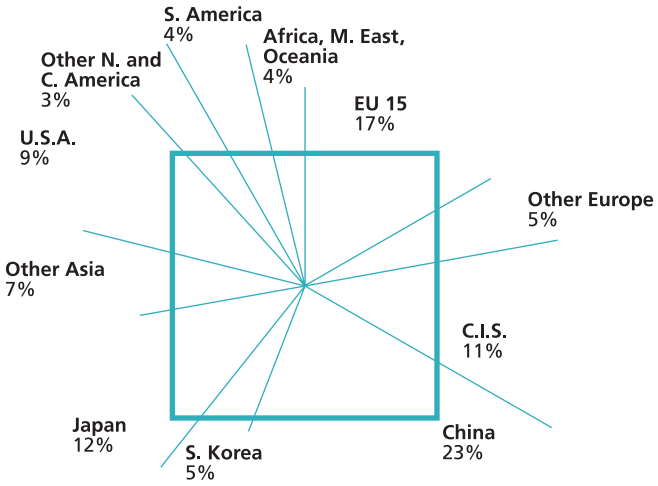
World Crude Steel Production (million tonnes)

Source: IISI



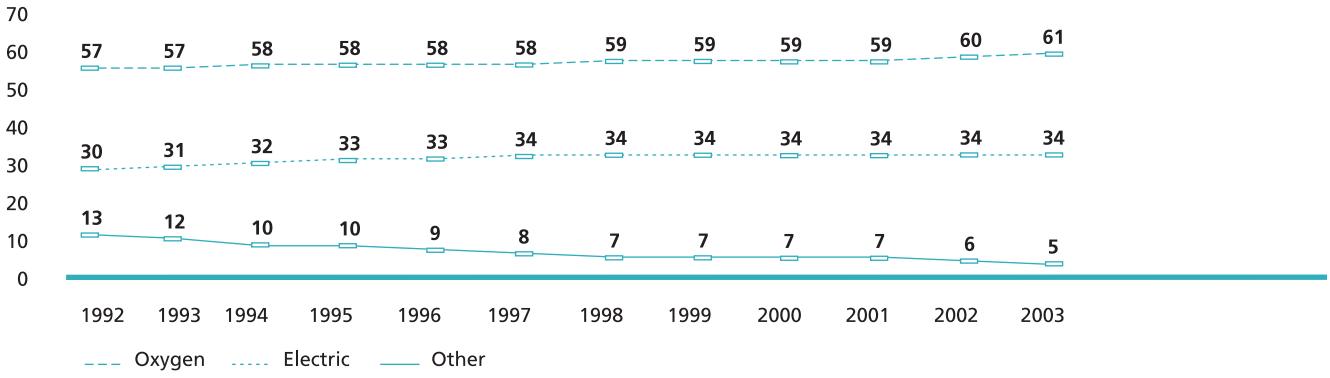
World Crude Steel Production Geographical Breakdown

Source: IISI



World Crude Steel Production by Process

Source: IISI



World Crude Steel Production (million tonnes)

Source: IISI

GEOGRAPHICAL AREAS	2003	2002	2003/02 % changes
World	**965**	**903**	**6.9**
Europe	**213**	**209**	**1.9**
EU 15	160	158	1.3
C.I.S.	**107**	**100**	**7.0**
Russia	63	60	5.0
Ukraine	37	34	8.8
Asia	**441**	**394**	**11.9**
China	220	182	20.9
Japan	111	108	2.8
South Korea	46	45	2.2
North and Central America	**123**	**123**	**0.0**
U.S.A.	90	92	-2.2
South America	**43**	**41**	**4.9**
Africa, Middle East and Oceania	**38**	**36**	**2.8**

Trade Policy

flexible

The EU safeguards introduced by the European Commission in March 2002 as a response to the imposition of American safeguards in the form of tariffs of up to 30%, were rescinded immediately on the lifting of the US measures in December 2003. The EU measures were entirely non-restrictive in terms of the maintenance of traditional trade flows and, being in the form of tariff-rate quotas set at record trade levels plus 10%, provided scope for the further development of trade. Nevertheless, they provided an indispensable element of security for the European steel industry by reducing likelihood of a sudden destabilising import surge. The fact that this surge did not occur to the extent feared was largely due to the unexpectedly strong development of demand in China and Asia.

EU Trade Defence instruments

In March 2003, the EU Council failed to approve the proposal of the European Commission for measures against imports of hot rolled coil from Egypt, Turkey, and Slovakia. This rejection was based on political considerations rather than an objective assessment of the technical merits of the case. It highlighted the dangers of political interference in anti-dumping procedures and put in question the efficiency of this internationally recognised legitimate trade defence instrument.

This case highlighted an inherent problem in the decision-making process defined by the anti-dumping regulation. In this case only a minority of member states had voted against the European Commission proposal. Yet the proposal failed since to this minority negative vote had to be added those member states which had, for whatever reason, abstained, an abstention being considered as a negative vote.

This underlined the real difficulties which would be encountered in applying the anti-dumping instrument efficiently after accession when 25 countries would vote on each proposal from the European Commission.

Proposals initiated by the European Commission were developed by the EU Council secretariat to modify the decision-making process, while preserving the politically sensitive prerogative of the EU Council to make a decision on European Commission proposals. The most important change proposed was that any future proposal of the European Commission would be adopted unless the EU Council rejects it by a simple majority. This change, marking a return to the system which had been in place under the old European Coal and Steel Community Treaty, was adopted in March 2004 and had the effect of transforming an abstention into support for the European Commission proposal. It promises to be much more manageable and effective and, as such, it is warmly welcomed by EUROFER.

Trade Policy

World Trade Organisation (WTO)-Doha Round

The priorities for the steel industry going into the Cancun Conference of September were:

- A substantial improvement in market access for steel products with the application of a single formula for all sectors resulting in a significant reduction in overall tariffs and a sharp reduction in tariff peaks, and, as a second step, the extension to all WTO members of the zero for zero agreement for steel products. Tariff reduction should be accompanied by the elimination of non-tariff barriers;
- A harmonisation and strengthening of the implementation of the antidumping agreement preferably towards the EU antidumping standards. The same interpretation and criteria should be applied by all WTO members;
- Of the Singapore issues, trade facilitation was a clear interest to the steel industry aiming as it did at substantially reducing the costs of trade procedures while promoting transparency, non-discrimination and the adaptation of least trade-restrictive measures.

The failure of the Cancun Conference was a major disappointment. It is now extremely unlikely that a comprehensive agreement in the Doha Round could be concluded for the present deadline of January 2005. The failure has put in question the multilateral approach to international negotiations and points to structural weaknesses in the organisation of the WTO. Furthermore, it may be impossible to find a consensus among 146 members whose core interests are so widely diverse. However, in principle negotiations on the Doha Development Agenda continue and the priority items for the European steel industry remain to be resolved.

US Safeguard Measures

The steel safeguard measures, announced by President Bush on March 5th 2002, introduced additional tariffs on imports of 14 product categories for a three year period. Tariffs, which were to be scaled down each year, were set up to as much as 30% during the first year of implementation, for a majority of product categories. Developing countries as well as NAFTA countries were exempted from the measures.

This blatantly protectionist decision caused uproar among US trading partners, who condemned it as an obvious violation of the US obligations under the WTO. This action provoked a domino effect as many countries reacted with the implementation of their own protectionist measures to insulate their market from trade diversion caused by the US market measures.

During 2003, the US safeguard measures came under renewed scrutiny both from within and from outside. Inside, the unusual controversy opposing steel users to steel producers culminated during the US International Trade Commission (ITC) mid-term review of the measures. Outside, the WTO Dispute Settlement Body was requested to investigate the US import restraints following a complaint lodged by an unprecedented number of countries.

The US ITC Mid-Term Review – On September 20th 2003 the US ITC submitted jointly to the President and Congress the mid-term review of the steel safeguard measures, and the review of "competitive conditions of the steel consuming industries with respect to steel safeguard measures".

These investigations concluded that:

- The safeguard measures might have been more harmful to steel using sectors than beneficial to the steel industry. In particular, the US ITC reports acknowledged that the tariffs had significant adverse effect on two sectors: auto-component producers and steel manufacturers. Grant Aldonas, Under Secretary of Commerce for International Trade recognised that "*the small- and medium-sized guys who bend metal for a living have a real complaint about the steel tariffs. There's no doubt about that. We can't hide from it*[1]".
- The price effect attributed to the safeguard measures was, in fact, due to the closure and reopening of capacities. Indeed, the safeguard measures led to the reopening of more than 10 million tons of capacity, the continuation of high cost operations, and weaker steel pricing.

US domestic producers used the protection of the tariffs to adjust to foreign competition. Nevertheless, this was essentially caused, not by the safeguard measures, but by the breakthrough labour contract signed by the International Steel Group (ISG) with the unions and by the take over of under funded pensions by the Pension Benefit Guarantee Corp. These two landmark events removed the two major obstacles to consolidation within the US steel industry. Consequently, during the first eighteen months of the safeguard measures, ISG purchased LTV Steel, Acme Metals and Bethlehem Steel in the hands of receivers; US Steel Group bought National Steel; and Nucor Corp. bought Trico Steel and Birmingham Steel.

Finally, it became clear that the imposed measures had been particularly unfair and discriminatory towards EU exporters. Unlike many other experts, they had not participated in the 1998 import surge in the US and had continued to respond to the conditions in the US market until the implementation of the safeguard measures. However, notwithstanding their responsible behaviour, EU producers suffered the most from the high level and limited country coverage of the tariffs imposed.

Total US Imports of S.201 Products from the EU and the Rest of the World (ROW)
Source: US ITC

	EU IMPORTS			ROW IMPORTS		
Year	**Short tonnes***	**Yearly change**	**% change**	**Short tonnes***	**Yearly change**	**% change**
04/01 - 03/02	4.309.694			19.745.439		
		-1.572.108	**-36.48%**		**798.545**	**4.04%**
04/02 - 03/03	2.737.586			20.543.984		

*1 short tonne = 0.9072 metric tonnes

1: American Metal Market, 22 September 2003: "Steel tariffs appear to have backfired on Bush".

Trade Policy

During the first year of implementation of the measures, the EU lost tonnage in each of the product categories subject to the measures. Overall, the EU steel industry lost almost 1.6 million short tonnes of exports of the affected products, while the rest of the world gained almost 800 000 short tonnes. The outcry from steel users reflects this situation: the tariffs have disrupted traditional supply lines and placed a heavy burden on manufacturers who require higher value products that are not widely available, if at all, from US domestic mills.

The WTO Challenge – On June 3rd 2002, the WTO Dispute Settlement Body accepted the EU request to establish a panel to judge the legality of the US steel safeguard measures. A single panel was appointed in July 2002, to rule on the complaints of Brazil, China, EU, Japan, Korea, New Zealand, Norway and Switzerland, while Canada, Chinese Taipei, Cuba, Malaysia, Mexico, Thailand, Turkey and Venezuela reserved their rights to participate in the Panel proceedings as third parties. Never before had so many countries jointly challenged an alleged violation of their rights under the WTO.

On March 26th 2003, the panel declared the US safeguard measures illegal. Although, as expected, the US appealed the panel's decision the Appellate Body condemned the steel tariffs on November 10th 2003. That decision gave the EU the opportunity to impose sanctions on imports from the US of more than 2 billion dollars.

Repeal of Safeguard Measures – In recognition of the divisive nature of the steel tariffs, their potential to create a political debacle, and under pressure from the EU threat of retaliation, President Bush announced the termination of the steel safeguard measures on December 4th 2003. At the same time, the President renewed his administration's commitment to the OECD negotiation to establish new and stronger disciplines on subsidies granted to steel producers.

OECD Negotiation of a Steel Subsidy Agreement

President Bush's "International Initiative on Steel" of June 5th 2001, directed the US ITC to start the investigation that led to the imposition of safeguard measures, and also requested the initiation of international negotiations on seeking the near-term elimination of inefficient excess capacity in the steel industry worldwide, and to eliminate underlying market-distorting subsidies. Work on these issues started at the OECD in September 2001 with the participation of the steel industry, worldwide, and the full support of the European steel industry. In December 2002, parties agreed to "undertake work immediately on the elements of an agreement for reducing or eliminating steel trade distorting subsidies at all levels of government[2]", "leaving open the option of taking up steel specific issues related to trade remedies at a later stage[3]". In the course of 2003, participants endeavoured to reach some consensus on the major elements of a Steel Subsidy Agreement (SSA), unsuccessfully. While the Capacity Working Group had to take stock of the fact that it could not find ways to support permanent plant closures.

2: It led to the creation, in February 2002, of two bodies: a "Disciplines Study Group" charged with exploring the scope for a political commitment by participants to voluntarily limit or, where possible, eliminate market-distorting government measures related to the steel industry, except for the purpose of facilitating closures. A "Capacity Working Group", which would explore the question of how to monitor market developments to see if projections for capacity closure are being met, as well as possibilities for financing closures and industry restructuring.

3: OECD press release; 19 December 2002

Throughout this process, EUROFER affirmed the European steel industry's vision of an SSA. The core goal of which is an improved return on investment of the steel industry worldwide by:

- Inducing the closure of uneconomic capacity;
- Prevention of subsidies for new capacity;
- Devising an effective and enforceable agreement.

Such a goal could be achieved by:

- Banning state aid for the creation of new capacity or the maintaining in operation of uneconomic capacity, whether they are generic or specific;
- Including all the stages of steel production;
- Effectively preventing the granting of these subsidies;
- Envisaging dissuasive sanctions;
- Exempting from the ban:
  - Support for definitive closures. This should include aid for dismantling, land rehabilitation and the softening of the social impact of closures;
  - Limited and clearly defined support for research and development as well as for environmental protection, including energy/ecotax rebates;
- Prohibiting Countervailing Duties (CVD) cases against permitted subsidies;
- Special and differential treatment of developing countries and economies in transition through temporary derogations for one-off subsidies to facilitate the restructuring of steel producers and the privatisation of state-owned steel mills, when such public support is accompanied by capacity closures and ensures the long term viability of the firms concerned.

However, the European steel industry is concerned that the OECD discussions have lost sight of the core goal of an SSA and have progressed in directions that are not coherent with the purpose of the agreement.

Raw Materials

energy efficient

Iron Ore

Prices for iron ore rose in 2003. The FOB reference price for fines rose by 9%, the delivered reference price rose by 12.6%. The lump premium rose slightly to 8.39%. There was a significant increase in the pellet premium.

Once again, 2003 was a record year for seaborne traded iron ore. Seaborne traded iron ore worldwide was 537 million tonnes, an increase from previous record level of 480 million tonnes in 2002. This increase of 57 million tonnes was also the biggest increase ever in a single year. Of that, 36 million tonnes was due to the growth of Chinese demand for iron ore. Japanese demand too grew, massively, mainly to feed demand in China for finished steel products.

Very high demand levels combined with a tight supply, up to end of 2003, led to an unprecedented review of capacity expansion plans and, in turn, have led to a significant review of investment plans.

During 2003, pig iron production in the EU remained virtually unchanged from the previous year at approximately 91 million tonnes. Imports of iron ore were 135 million tonnes. The pattern of import was largely unchanged with slightly lower imports from Brazil and Mauritania. The import share was 62% fines, 16% lump and 22% pellets. Consumption of ore increased by 4%.

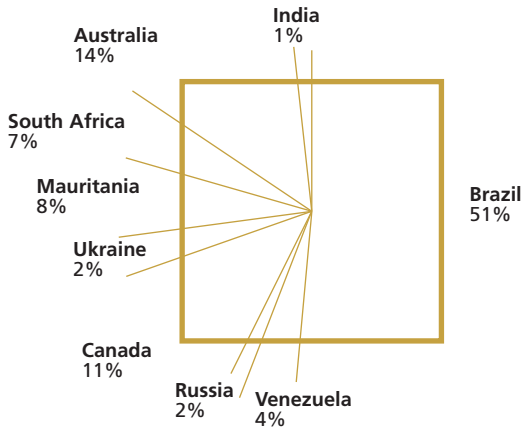
Coal and Coke

Imports of coal during 2003 were 44.6 million tonnes. Consumption rose by 2.8 million tonnes. EU coke consumption in 2003 was 40.6 million tonnes of which imports from third countries were 14 million tonnes. China was the largest supplier to the EU with 4.4 million tonnes; globally, it accounted for more than 50% of international coke trade.

The price of coke escalated in 2003, rising from typically US-Dollar 62-65/tonne to US-Dollar 185/tonne by the end of 2003. This was due to the very large expansion of steel production in China combined with its policy of restricting the allocation of coke for export. Given the large coking capacity closures notably in Europe and the US, which amount to more than 17 million tonnes since 1998, have intensified the world steel industry's dependence on coke supply from China.

EU Receipts of Imported Iron Ore

Source: EUROFER



Raw Materials

Scrap

After a period of some stability in scrap prices, there was a fair degree of volatility in prices in the course of 2003. Particularly in the last months of the year which saw very large prices rises, a situation which continued and indeed intensified in 2004.

Demand levels reflected the very healthy output levels from producers with electric arc furnaces. Scrap consumption was at 86 million tonnes, slightly above the level of the previous year. Nevertheless, supply availability was generally satisfactory. However, there were developments internationally which increasingly began to put scrap supplies and prices in Europe under pressure.

The emergence of China onto international commodity markets and the huge expansion of its steel production led to a rapid escalation of the demand for scrap in China and Asia. Although direct exports of scrap from the EU to this region did not expand significantly the effect of the development in demand for scrap from Asia began to impact on international scrap prices and thus had an effect on prices in Europe, particularly towards the end of 2003.

Furthermore, those countries from which Europe imported much of its scrap (e.g. Russia and Ukraine) which had already restricted their scrap exports through a variety of means, (e.g. export taxes), responded to demand from Asia by diverting their scrap exports to that region.

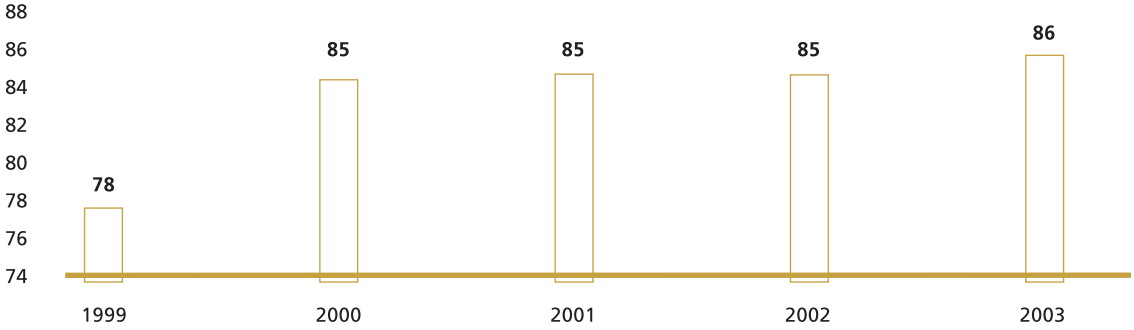
In 1999, the EU had imports from third countries of 7.4 million tonnes and exports of 5.3 million tonnes. In 2002 this position was reversed for the first time. Since 1999, the level of exports from the EU to third countries has risen by 3.3 million tonnes, while imports have risen by only 1.2 million tonnes.

The combination of higher demand from regions with poor scrap reserves, regions prepared to pay a premium for scrap supplies, together with export restrictions imposed by traditional suppliers has made sourcing imports into the EU more problematic. While, in addition, it has attracted EU scrap to export markets.

While the level of scrap collection and arisings is very price sensitive – the higher the price the greater the incentive to collect and process scrap – supply is finite and security of supply of a vital raw material, used in over 40% of EU steel production, has now become an issue of real importance to the European steel industry.

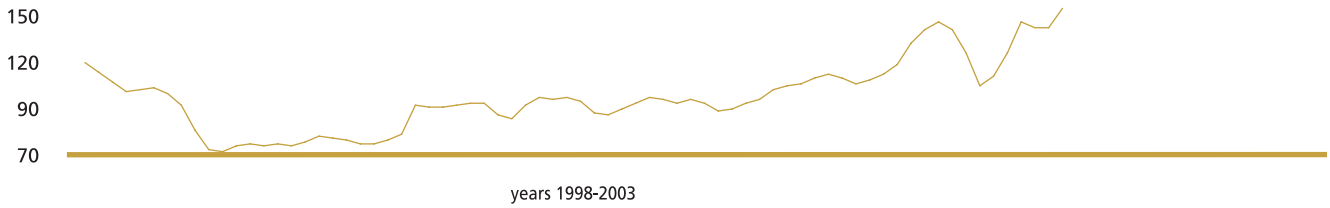
Scrap: EU Consumption (million tonnes)

Source: Eurostat and EUROFER



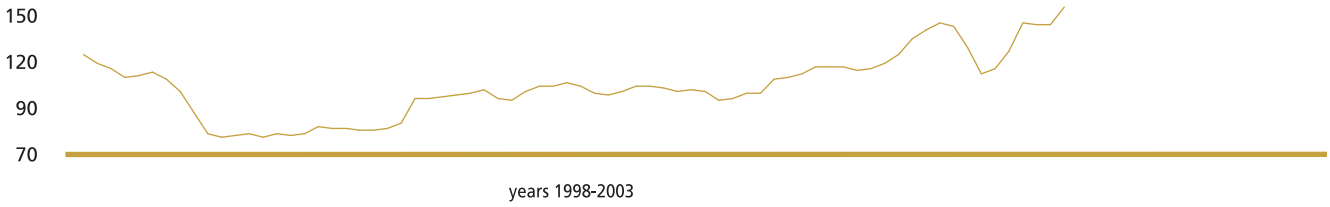
Scrap - Demolition Quality: Price EU Market (€/t)

Source: EUROFER



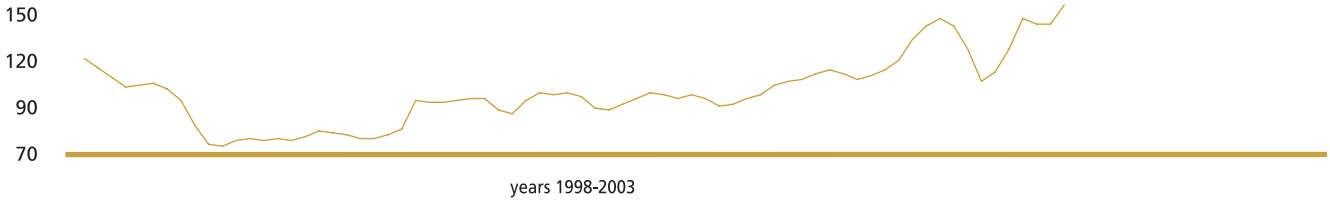
Scrap - New Arisings: Price EU Market (€/t)

Source: EUROFER



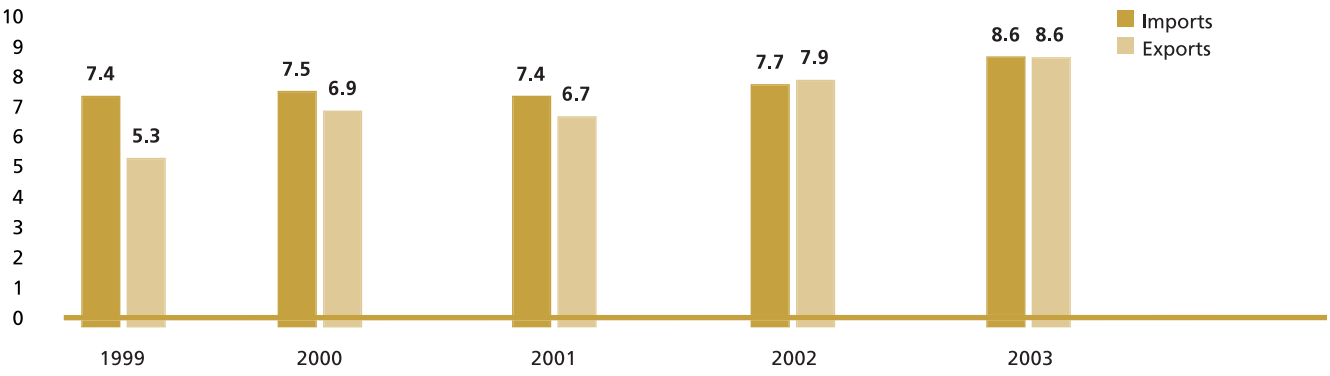
Scrap - Shredded: Price EU Market (€/t)

Source: EUROFER

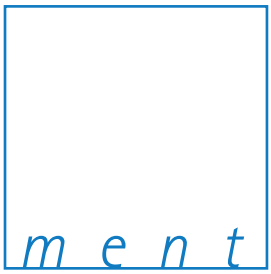


Scrap: Imports and Exports (million tonnes)

Source: Comext - Eurostat



Technology and Environment



environmentally friendly

Research

EU Framework Programme Research (FPR)

Ultra Low CO_2 Steelmaking (ULCOS) – ULCOS is a joint integrated project presented by the EU steel industry and aimed at developing breakthrough technologies to substantially reduce CO_2 emissions in steelmaking. This proposal will partially be financed by the 6th EU FPR and Research Fund for Coal and Steel (RFCS). In a first phase ULCOS would evaluate every reasonable proposal on CO_2 emissions reduction, using a standardised methodology. The most promising sustainable technologies will then be studied in detail and tested on a pilot scale. Finally, full-scale demonstrations of appropriate technologies will be tested. The results of this work should redirect the investments in steelmaking in the post-Kyoto era.

EU Research Fund for Coal and Steel (RFCS)

During 2003, a total of 144 research proposals were submitted to the European Commission to be selected and financed under the EU RFCS. The European Commission agreed to finance one third of these proposals.

RTD Steel Projects Agreed by the European Commission under the RFCS in 2003-2004*

PRIORITY AREAS	RESEARCH AREA DESCRIPTION	N° OF PROJECTS
Steelmaking and finishing techniques	Ore agglomeration and iron making	2
	Steelmaking	8
	Casting, reheating and direct rolling	3
	Hot and cold rolling	8
	Finishing and coating	5
Products	Physical metallurgy and material design	5
	Steel products and applications for automobiles, packaging and home appliances	5
	Steel products and applications for building, construction and industry	4
Other	Factory-wide control	8
	Working welfare, social and environmental issues	9
	Total	**57**

*RTD projects were submitted in September 2003 and approved in February 2004

Technology and Environment

Steel Technology Platform

In 2003 EUROFER and the European Commission worked closely to establish a Steel Technology Platform. The Platform, operating within the European research framework, is expected to constitute a powerful tool to gather the necessary skills and competences to achieve the ambition of the European steel industry in the fields of environment, technology, competitiveness, etc. It would also strengthen and broaden the existing European steel research network. This initiative was officially launched in March 2004 (see also the chapter *Communication*).

Standards

European standardisation activities are mainly developed within the European Standardisation Committee (CEN) and, specifically for steels and steel products, within the European Committee for Iron and Steel Standardisation (ECISS). More than thirty technical committees and sub-committees are working under the umbrella of ECISS. In this context, EUROFER ensures the coordination among steel representatives from national standardisation bodies.

During 2003, the European Commission launched a public consultation on the integration of environmental aspects into standardisation. Eurométaux and EUROFER were concerned that a disproportionate emphasis on this specific item may distort the standardisation. The European Commission has to ensure that, with regard to sustainable development, the environmental issues are not favoured at the expense of economic and social aspects.

For many industries, the development of International Standards is an important element in the removal of trade barriers and greatly assists the competitiveness of the European industry. Many other non-EU countries are active in the development of International Standards. Their approach to standardisation, environmental aspects and regulation are often very different from those promulgated in Europe. As the development of standards is based on consensus, it is not always possible to achieve the European view in the international arena.

A potential negative consequence could be an over-emphasis on environmental aspects caused by inexperienced consumers or NGO representatives joining standardisation committees. This could lead to a distortion in the standardisation process (e.g. emphasis on environmental aspects instead of technical, health/safety issues, etc.) and may result in inappropriate standards.

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/*).

The last relevant vertical Best Available Techniques (BAT) Reference Documents (BREFs) for the steel industry concerns metal surface treatment. It is expected to be completed by the end of 2004.

EUROFER was involved with BREFs on horizontal, cross-sectorial issues such as economic and cross media effects as well as emissions from storage of bulk or dangerous materials. It also took part in the stake-holders' consultation organised by the European Commission, and asserted that the scheduled revision of these documents is still inappropriate. EUROFER suggests that revisions should be carried out only on those items where relevant and significant improvements have been observed.

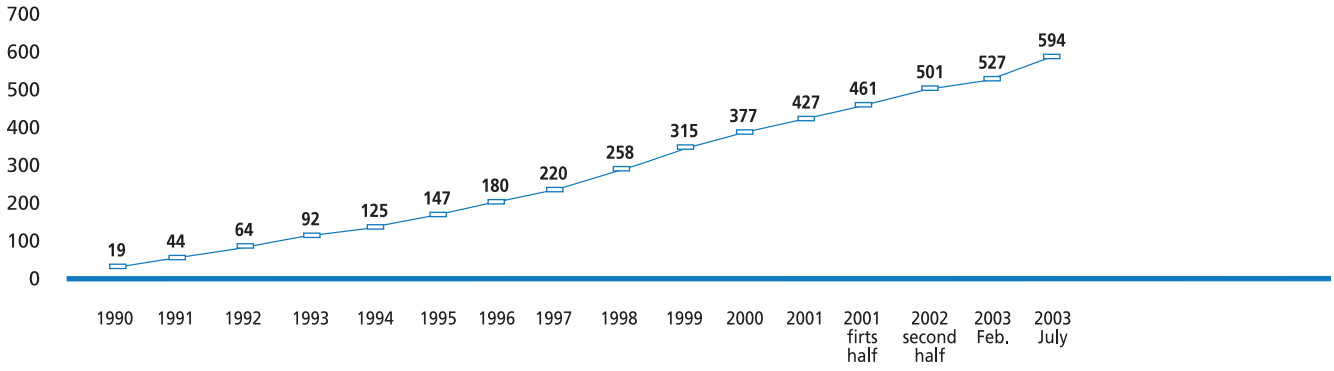
EUROFER stressed the need for a coherent and integrated approach to regulations which would lead to a better protection of the environment. The IPPC Directive itself is intended to provide such an integrated approach. Nevertheless, new proposals for regulations tend often to go beyond what may be achieved by the application of BAT.

In 2003, the European Commission issued a communication on the implementation of the IPPC Directive. The communication was focused on whether Member States have implemented the Directive in national legislation. EUROFER is concerned that, at a national level, local permitting authorities may take reference values in BREFs as limit values without regard to local conditions. The potential costs and benefits of any proposed measures should be assessed, as required under the IPPC Directive. National implementation at different rates will not be addressed for several years. Especially, 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 therefore persist for a long time.

EUROFER considers that the revision of, and new initiatives for EU Directives on environmental matters should only follow an assessment of their interaction with the large volume of existing environmental legislation and an objective assessment of the state of the environment. This would help to avoid confusion and, in some cases, conflict with the existing EU legislation, bring more benefit to the environment and avoid unnecessary burdens to the European economy.

Number of Environmental Legislative Acts Adopted in the EU

Source: Federchimica



Technology and Environment

Greenhouse Gas Emission, Climate Change and Emission Trading (ET)

Emission Trading (ET) Directive – The energy intensive industries representing the cement, lime, glass, paper, non-ferrous metals and steel industries (so called *The Alliance*) continued to follow the co-decision procedure for the Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

The Alliance is strongly opposed to the introduction of a linear cap (trend line). This cap would be an excessive technical and financial burden for the growth of the industries involved in the scheme and would even penalise them for having grown since 1990. In addition, the energy intensive industries were strongly against any mandatory auctioning and supported the wording finally adopted where "*any Member State may choose to allocate all allowances free of charge during both periods" (http://www.eurofer.org/positionpaper/competitiveness.htm#etsintro).*

Whereas the steel industry was concerned, notably the case of export gases, EUROFER strongly supported the amendments whose intent was that, under specific circumstances (where there are interconnected activities, with some of those activities being under the management of different operators), allowances are allocated to the operator best placed to control the emissions, i.e. the operator who has the greatest potential to affect the emissions from the connected activities. The EU Institutions recognised the specific case of the steel industry and introduced an additional recital in the Directive indicating that "*Member States should have regard when allocating allowances to the potential for industrial process activities to reduce emissions*".

Joint Implementation/Clean Development Mechanisms linking Directive (JI/CDM) – *The Alliance* has also been following the development of the Directive amending the *Directive establishing a scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol's project mechanisms*, the so-called *JI/CDM linking Directive*. It welcomed in principle this proposal which represents a tool to ensure more flexibility and cost efficiency to reduce emissions.

Nevertheless, the European industry as a whole, strongly opposed the introduction of any artificial ceiling which would inhibit the flexibility and cost-effectiveness upon which ET is based. Industry favoured an unlimited option to convert JI and CDM credits into ET allowances. This position was finally acknowledged by both the European Parliament and the EU Council allowing Member States to lay down limits themselves for the use of flexible mechanisms. Unfortunately, the flexibility principle is still partially inhibited by the statement which foresees that each Member State will have the right to allow operators to use credits in the ET scheme "*up to a percentage of the allocation to each installation, to be specified in its National Allocation Plan for that period*".

Monitoring and Reporting Guidelines and National Allocation Plan (NAP) Guidance – In accordance with the ET Directive, the European Commission was committed to issue, by the end of 2003, documents aimed at establishing guidelines in monitoring and reporting of greenhouse gas emissions and guidance to assist Member States in developing their allocations plans.

In this context, EUROFER focused on three main topics:

- **Definition of the combustion installation** – EUROFER proposed that the interpretation of combustion installation is limited to the burning of fuel in an appliance designed for the production of energy for use by or in another appliance. This should not include the burning of fuels where the products of combustion are used directly as an integrated part of a production process. Thus, furnaces, kilns, reactors and incinerators should be excluded. This interpretation is consistent with the IPPC Directive and with the listing of other activities in Annex1. Unfortunately, the final wording approved by the European Commission did not provide Member States with clear definition. In this respect, it will give rise to different interpretations leading to inevitable distortions.

- **Process related emissions** – EUROFER requested a clearer definition of the process related emissions. It claimed that emissions from the combustion of blast furnace gas, basic oxygen furnace gas and coke oven gas are not "*combustion emissions*" but should be defined as "*process emissions*" wherever is the source (either an integrated steel plant owning its power plant or an external one operated by a third operator). Once properly defined, these emissions should not be capped (as it would lead to an artificial cap on the steel production) and the corresponding allowances should therefore be allocated free of charge in any circumstances. Unfortunately, both the monitoring and reporting guidelines and the NAP guidance do not include any clear provisions in this respect.

- **Export process gases and related allowances** – Following a close exchange of views between EUROFER and the European Commission, it was agreed that "*where a waste gas from a production process is used as a fuel by another operator, the distribution of allowances between the two installations is a matter for Member States to decide. For that purpose, a Member State may choose to allocate allowances to the operator of the installation transferring the waste gas, provided this is done on the basis of a pre-established criterion, compatible with the existing criteria of Annex III and the Treaty*". EUROFER welcomes this statement which is crucial for a large proportion of European steelmakers facing that situation in their respective country.

Zinc Risk Assessment

The revised EU environmental risk assessment report (RAR) for zinc was discussed at a meeting of EU Member States' technical experts in March 2004. Among the different topics, the Technical Committee on New and Existing Substances (TC NES) agreed on a conclusion (III) of regional risk for the water and sediment. Industry disagreed with that conclusion, as it is not justified by the weight of the scientific evidence. However, TC NES requested that the risk conclusions should be put into perspective by identifying explicitly the causes of the risk scenarios (i.e. the waters with higher zinc concentrations). This request would permit industry to demonstrate that the remaining identified risk scenarios are not related to current use patterns of zinc, but instead to historical pollution associated with contaminated sites or point source emissions. The TC NES recommended that industry should be involved in the process of making the risk characterisations for water and sediment more explicit. For soil, no conclusion was reached, due to industry's fundamental critique on the proposal for risk conclusion. However, decisions on risk will be taken during one of the next TC NES meetings.

Technology and Environment

Air Quality

The Fourth Daughter Directive to the Air Quality Framework Directive Relating to Arsenic, Cadmium, Mercury, Nickel and PAH in Ambient Air (AQDD) – On July 16th, 2003, the European Commission issued the official proposal for a 4th AQDD related to arsenic, cadmium, mercury, nickel and polycyclic aromatic hydrocarbons (PAHs). Although the Commission proposal introduced target value for PAH and would require monitoring only of arsenic, cadmium and nickel, the first reading agreement (co-decision procedure) between the European Parliament and the EU Council established the following target values:

- Arsenic 6 ng/m^3
- Cadmium 5 ng/m^3
- Nickel 20 ng/m^3
- PAH 1 ng/m^3 measured for a single marker compound, Benzo-a-pyrene (BaP).

The EU Council should formally adopt the Common Position during 2004.

Clean Air for Europe Program (CAFE) – The 6th Environmental Action Programme proposes seven *thematic strategies* described as EU work programmes for specific policy areas. One of the *thematic strategies* concerns air quality. This strategy is being developed through the ongoing CAFE programme. CAFE will provide an overview of existing policies and will make recommendations to the European Commission on develop future air quality policy initiatives.

The future *thematic strategy* on air quality will build on 10 main points:

- Principle for action (e.g. polluter pays, precautionary, etc.);
- Main objectives and targets;
- Actions and instruments for meeting the targets;
- Improvement of knowledge on air quality data;
- Simplifying reporting;
- Improving transparency and access to information;
- Improving implementation of EU legislation on air;
- Avoidance of peak levels of air pollution;
- Efficient implementation of the "polluter pays principle";
- The role of the EU in the international context.

The European Commission is already working on the possible future measures to be taken relating to air quality. Of the ones identified so far, the following will be of importance to the steel industry:

- Revision of the National Emission Ceiling Directive;
- Revision of the 1st AQDD relating nitrogen oxides, sulphur dioxide, lead and Particulate Matter (PM) 10 including the possible shift to PM 2.5;
- 2nd AQDD relating to benzene and carbon monoxide

EUROFER is following the CAFE activities through the UNICE Air Quality working group and as a member of the CAFE steering group. EUROFER efforts are mainly concentrated on the revision of the 1st AQDD.

Based on the World Health Organisation's (WHO) analysis of the health effects, shift from PM 10 to PM 2.5 as the metric for the revised Directive was recommended. In addition, very low limits were suggested in the absence of a threshold for health effects. The steel industry is identified as one of the major industrial emitters of PM and revision is therefore of high concern. However, as measured data are rare, it is unclear how a shift to PM 2.5 will affect the steel industry.

Waste

Towards a Thematic Strategy on Waste Prevention and Recycling – In May 2003, the European Commission issued the communication "*Towards a Thematic Strategy on Waste Prevention and Recycling*" as a first step towards the strategy itself. The document suggests, among others, that recycling targets might be better set by material rather than by single product and proposes solutions to make recycling more cost-effective. EUROFER opposes strongly any targets in relation to scrap because steel recycling activities and the scrap market function satisfactorily. Legislative interference may lead to unjustifiable distortion of this well-established global market. One element of the waste prevention and recycling strategy will be revised and updated classifications of recovery and disposal operations (Annexes IIA and IIB of the Waste Framework Directive 75/442/EEC). The European Commission commissioned a study on the definition of waste recovery and disposal operations. This document examines missing or obsolete recovery and disposal operations as well as the distinction between recovery, recycling and reuse, criteria for classifying operations based on efficiency, and when recovery can be said to have been completed. Some of the examples in the report are taken from the steel industry, where EUROFER contributed with the experience of the steel industry concerning the use of plastics in blast furnace. According to the report it is not clear how this operation should be classified while EUROFER argues for recycling as the plastic is used as reducing agent and not to produce heat. The European Ferrous Recovery and Recycling Federation (EFR) has provided information relating to an example on scrap. The final report was published in July 2004.

Definition of Waste – The European Commission is willing to establish criteria for when a waste ceases to be a waste based on its qualities and linked with its final use. This could be achieved by establishing a material standard including environmental criteria as well as technical for each "waste material". The proposal has been welcomed by both stakeholders and Member States. EUROFER appreciates recognition by the European Commission of the difficulties of the current waste definition and will discuss carefully how to proceed and whether to establish such criteria, notably for scrap and slag.

Revision of the Waste Shipment Regulation - The waste shipment regulation concerns the supervision and control of shipments of waste within, into and out of the EU, from notification of a shipment to final disposal/recovery of the waste. In addition, the revision aims to align the European regulation with the Basel Convention. The main aspect for the steel industry is that slag and scrap are listed as green waste (i.e. non hazardous) and are thereby covered by the regulation. Together with Euroslag, the European Association representing metallurgical slag producers and processors, EUROFER supports the removal of processed slag from the list and limitation of the general administration requirements. Although the European Parliament was in favour of de-listing treated slag, the European Commission did not accept this position because it is in contradiction with the Basel Convention. Discussions in the EU Council are still on-going and a political agreement should be reached during 2004.

Restriction of Hazardous Substances (RoHS) in Electrical and Electronic Equipment – This Directive bans (with exemptions for certain applications) the use of lead, mercury, cadmium and chromium VI in electrical and electronic equipment. It was adopted in 2002 and is now being implemented. EUROFER has contributed to the debate with a position paper asking for the inclusion of a text allowing a maximum concentration of up to 0.1% by weight and per homogeneous material, for lead, hexavalent chromium and mercury and up to 0.01% by weight per homogeneous material for cadmium, provided these substances are not intentionally introduced. This text is consistent with the Annex 2 of the End of Life Vehicles Directive related to an identical situation. Maximum concentrations are important for compliance reason since no material can be absolutely free of any chemical element. The European Commission is expected to issue guidelines on the definition of homogeneous material during the 2nd half of 2004.

Technology and Environment

EU Soil Thematic Strategy

In response to concerns about the degradation of soils in the EU, the European Commission has outlined the first steps in a strategy to protect soils. This strategy is one of seven thematic strategies foreseen under the EU 6th Environment Action Programme. As an integral part of the development of the soil strategy, the European Commission co-operates with the stakeholders. For this purpose a total of six groups have been established: an Advisory Forum and five working groups covering the following fields: erosion, organic matter, contamination, monitoring and research. EUROFER seats in the Advisory Forum as well as in the working groups responsible for contamination, monitoring and research.

EUROFER recognises the need to take soil protection and the sustainable use of the soil to a balanced level within the EU. In particular it considers that the EU soil strategy should:

- Take into account the differences in local circumstances (soil, climate, economic differences): there should be uniform general principles at EU level but the principle of subsidiarity must apply;
- Be based on sound scientific knowledge and a risk based approach;
- Be based on cost-effectiveness and cost-benefit analysis;
- Lead to a low bureaucratic and administrative burden;
- Contribute to a better dissemination of the accumulated knowledge.

Products

Integrated Product Policy (IPP)

The IPP sets out a strategy for the integration of environmental criteria into the manufacture and design of products, detailing objectives and the tools to be implemented in a life-cycle perspective. The European Commission launched in June 2004 two pilot projects to demonstrate how IPP would work in practice. EUROFER is preparing an IPP shadow project to be conducted in parallel with the European Commission project. The aim is to give further inputs to the European Commission activities demonstrating the advantages of steel in the IPP context. In April 2004 the European Parliament asked the European Commission to propose a framework Directive on IPP and called on Member States to look at various incentives to encourage environmentally friendly consumption (i.e. taxes, etc.). IPP is now in the implementation phase and EUROFER is closely monitoring the developments, both on its own and as members of UNICE.

Eco-Label for Furniture

Eco-label criteria for furniture are currently being developed within the EU eco-label scheme. The criteria include specific criteria for materials. The criterion for steel (both carbon and stainless) is that, if the furniture contains more than 80 % of steel (by weight) the steel shall contain at least 20% of recycled material. For each of the criterion, manufacturers will have to show compliance via several assessment and verification steps.

EUROFER opposes to any reference to recycled content. As the demand for steel cannot be satisfied solely by recycling, it means that steel produced from ore would have to be used somewhere else. The criterion has no environmental relevance and, at the same time, limits the choice of materials available to the manufacturer of the furniture.

Energy

Taxation on Energy Products

EUROFER has been following very closely, for many years, the procedure leading to the adoption by the EU Council of the Directive of October 27th 2003 restructuring the Community framework for the taxation of energy products and electricity (2003/96/EC). The Directive itself should not have much impact on the competitiveness of the steel industry, as the dual use of energy products and electricity in metallurgical processes are outside the scope of this Directive.[6] Therefore, both coal used for reduction purposes (through coke production or direct injection in the last furnace) and electricity used in an electric arc furnace should not be subject to this mechanism. Nevertheless, the implementation of this Directive at national level will be scrutinised by EUROFER to ensure that this dual use definition is correctly applied.

In addition to this exclusion, the Directive foresees exemptions and reductions for products used for heating purposes (e.g. process gases). Member States may also apply a level of taxation down to zero to energy products and electricity when used by energy-intensive businesses provided that they shall enter into agreements, tradable permit schemes or equivalent arrangements which lead to the achievement of environmental objectives or increased energy efficiency (i.e. emission trading scheme). Industry's main concern is that the Directive will not harmonise the level of energy taxation throughout the EU and will not prevent Member States to impose higher taxes than the minimum rates specified, leading to further competitive distortions within the EU.

Impact of Emissions Trading Scheme (ETS) on Energy Prices

The Alliance, an umbrella temporary organisation representing the European power intensive industrial sectors (cement, lime, glass, paper, non-ferrous metals and steel), is concerned by the negative impact that the EU ETS may have on the competitiveness of these sectors due to in power prices and consequently, unjustifiable windfall profits for electricity producers. In particular, this scheme will increase the marginal cost of electricity production in fossil-fuelled plants.

In the absence of real-competition in the power market, power companies will be able to charge the extra cost linked to EU ETS regardless of whether the power purchased is from a source with CO_2 emissions or not. This pricing mechanism will lead to exorbitant windfall profits for power companies in certain Member States at the expenses of energy intensive industries, with no economic or environmental justification. The International Energy Agency, International Federation of Industrial Energy Consumers and electricity companies themselves have identified this possibility. With such increase in power prices, the competitiveness of the European steel industry and that of the energy intensive industries in general would be definitely jeopardised against non-EU producers. Especially transport costs from competing countries could become lower than the cost impact of the power price.

In order to carry out alternative proposals *the Alliance* issued a conceptual solution to minimise the impact of the EU ETS on electricity prices. This paper is available on the EUROFER website at: *http://www.eurofer.org/positionpaper/04-03-17ElectrowattETS.pdf*.

6: An energy product has dual use when it is used both for heating fuel and for purposes other than as motor fuel and heating fuel; the use of energy products metallurgical processes shall be regarded as a dual use.

Technology and Environment

Stainless Steel Producers Group (SSPG)

In 2003 the EUROFER SSPG issued a "Newsletter" on the status of EU legislation that has implications for the stainless steel industry, and developed a communication network within the industry and with other interested parties, that will contribute to the co-ordination of lobbying activities at both the EU institution and national levels.

During the year, SSPG activities were concentrated on the ongoing development of the EU "New Chemicals Policy" (REACH). EUROFER responded to the European Commission's internet consultation on a proposed text for REACH. The EUROFER comments and detailed proposals for amendments incorporated common European metals industry issues, as presented by the "*Metals Forum*" (an informal alliance of EUROFER, Eurométaux, EuroAlliages and the European Industry Metals and Alloys Classification Group - EIMAC) as well as steel industry specific issues.

The main concerns for the steel industry were, and remain, as follows.

- To ensure fair competition between different classes of material, minerals and ores (the raw materials for the metals sector) should be exempted from the obligation to register, as in the case for the raw materials (i.e. coal, gas and crude oil) for the organic chemicals sector. In addition, the gases produced as by-products in coke ovens and integrated steel mills are used like natural gas, oil and coal to produce energy and heat. They should, also, therefore be exempted from the obligation to register.
- Steel and other metallic alloys are special preparations that have their own intrinsic properties. The UN-agreed definition of metallic alloys needs to be included the text, as is the case for "polymers", to ensure recognition of, and workability for, metallic alloys.
- The regulatory burden on iron and steel, as well as other metals and alloys, in the massive form should be reduced in proportion to their potential to represent risk to human health or the environment.
- Wastes for recycling should not be within the scope of REACH, because they are already well controlled and managed by other EU and international waste legislation.

Regrettably, the European Commission ignored these comments and proposals for amendments. Therefore, a further attempt to influence the proposed text for REACH was made during the Commission inter-service consultation. The Commission launched their formal REACH proposal on October 29th 2003. While this did, in fact, incorporate some welcome generic improvements, the specific concerns of the steel and metals industries were not addressed. In response, the Metals Forum formed an integrated lobbying network to engage members of the European Parliament and Member State representatives of the EU Council in discussions on issues specific to steel and metals.

The SSPG continued to chair EIMAC that is working on the industry-wide REACH strategy for alloys and it is a member of the European Centre of Ecotoxicology and Toxicology of Chemicals (ECETOC) Task Force that is developing a tiered and targeted approach to the risk assessment of chemicals.

Work also continued on the investigation of the carcinogenic potential of stainless steels: 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 metallic nickel may be increased. Preliminary studies on stainless steel powders commenced, while follow-up studies, by the research team at the Royal Institute of Technology in Stockholm, on stainless steel in the massive form continued to yield valuable data. This programme of work was transferred to the International Stainless Steel Forum (ISSF) in 2002, but it continues to be managed by EUROFER, assisted by an ISSF support team.

The SSPG also worked in close collaboration with other EUROFER technical committees engaged in health and environment issues, on the European Commission proposals for the 4th DDAQ, the IPP and the integration of environmental aspects in standardisation.

Other

Towards a Thematic Strategy on the Sustainable Use of Natural Resources

On October 1st 2003, the European Commission issued a communication to launch a debate on a "*Thematic Strategy on the Sustainable Use of Resources*". According to the communication, the strategy would concentrate on reducing the environmental impact of resource use during the whole life cycle (extraction – production – use – end of life). The objective being to ensure that resource use does not lead to environmental degradation. The focus during the stakeholders consultation has been on renewable resources, where their overexploitation damages biodiversity and is not sustainable, e.g. fisheries.

The main elements of the strategy are to:

- Gather more information on the impacts of resource use at every stage of its resources life cycle;
- Choose policies based on information about the impact of resource use on the environment. Proposals may look at resource pricing and progress towards eliminating so called "*environmentally negative subsidies*" (i.e. for products such as coal).

EUROFER is actively participating in the two working groups and the advisory forum formed by the Commission. One working group examines the supply of natural resources and production of raw materials and the other addresses the conversion of raw materials into products and their subsequent use. Although discussions are not focused on the steel industry, EUROFER follows this topic closely. Indeed, an on-going study made by the European Commission and aimed at identifying the material flows with the highest environmental impact, might change the situation.

Human Resources

r e l i a b l e

Creation of New Jobs in Regions Affected by Steel Restructuring

The "Fiduciary and Management Agreement" between the European Commission and EUROFER in March 2001 created a "EUROFER Guarantee Fund" and entrusted EUROFER to issue guarantees to partially cover loans and equity investments made by financial intermediaries to innovative small and medium enterprises (SMEs) in regions affected by steel restructuring.

In accordance with its mission, during the course of 2001 EUROFER selected financial intermediaries with solid experience in this field, from four different countries: Sodie (Belgium and France), Dortmund Venture Capital (Germany) and UK Steel Enterprise (Great Britain). The period for the issuance of guarantees terminated at the end of September 2003. During that period EUROFER received 136 guarantee requests and issued 127 EUROFER Guarantees.

This consumed the Euro 2 million Guarantee Fund and permitted the disbursement of Euro 11,635,581 in loans and equity investments. The majority of these funds were used for the development of existing enterprises. Nevertheless, these funds contributed to the creation of sixteen enterprises in Belgium, fourteen in France, five in the UK, and one in Germany. Generally, the type of activity created by the Fund remains strongly related to the steel industry. The new SMEs have absorbed the workforce in the targeted regions and used it to develop new activities thanks to the available competencies and know how.

The EUROFER guarantees issued should contribute to the creation of more than 1,600 new jobs. 400 of them were already created at the end of September 2003. The evaluation of the EUROFER Guarantee Fund undertaken by all programme partners (the European Commission, EUROFER, and the financial intermediaries) demonstrated the successful implementation of this pilot project at EU national and local levels. In particular, financial intermediaries welcomed the EUROFER Guarantee Fund, which allowed them to undertake higher risks to support start up and small fast growth businesses. They, also, have expressed satisfaction with the responsiveness of the project's management, which generated considerable confidence in the system.

Encouraged by the success of this pilot project, EUROFER and the financial intermediaries will work with the European Commission and the European Parliament to develop it into a full-scale programme.

Statistics

p r e c i s i o n e n g i n e e r i n g

From January 1st 2003, in accordance with the Prodcom (PRODucts of the European COMmunity) Regulation, the collection of monthly production statistics for steel products has been a new responsibility of Member States. The implementation of these inquiries suffered considerable delays in some countries and, for this reason, feed-back information on Community-wide total results for 2003 has not been published. In this context, due to the fact that the official system could not meet the requirements of the steel industry in terms of quality, thoroughness and timeliness of information, EUROFER took the initiative to set up a voluntary system of production and commercial surveys amongst its members.

During 2003, considerable efforts were devoted to the proper running of this system. Contacts were also developed with national associations and producers in the EU accession countries to make future EUROFER members familiar with the contents and procedures of the voluntary system.

EUROFER provided advice to Eurostat, the Statistics Office of the European Community, regarding the concept and implementation of the new annual enquiries on scrap consumption, energy consumption, investments and capacities in the steel industry. These will be performed for the period 2003-2009 in accordance with the EC Regulation 48/2004.

In June 2003, EUROFER proposed to adopt, as part of a fundamental revision of the steel industry products classification in the Harmonised System, the trade nomenclature used on a worldwide basis in order to better suit the requirements, practices and terminology of the global steel industry. However, due to the difficulties encountered in a preliminary round of international consultations, EUROFER has started preparatory works to carry out an alternative proposal which should be issued by the end of 2004.

Edifer

m o d e r n

EDIFER is the programme developed within EUROFER, which is aimed at providing a new generation of standardised exchange of electronic information between the European steel industry and its partners in trade matters. This objective will be achieved using current and emerging technology solutions like EDI (Electronic Data Interchange), internet and web services, in an interoperable, secure and consistent environment.

EDIFER defines the business processes for the ordering, shipping and invoicing cycles. For each of these processes a set of transactions (business documents) have been issued in syntax neutral content and as XML messages. This led, during 2003, to the official publication of the European Steel Industry Exchange Language (ESIDEL) standard version 1.0, which should be completed during the course of 2004.

For the years 2004-2005, priority will be given to those activities aimed at:
- Handling any future improvement on the basis of ESIDEL 1.0;
- Providing implementation guidance and support to the users of the ESIDEL standard;
- Reviewing and upgrading the existing EUROFER user implementation guides of EDIFACT messages;
- Increasing the involvement of EUROFER in the development of e-commerce standards at a global level, through its active participation in UN/CEFACT and CEN activities;
- Cooperating with other sectors like steel stockholders, automotive, chemical, electronic, etc. to create harmonised XML information exchanges for trade matters;
- Cooperating with the Japanese Iron and Steel Federation (JISF) and the Australian steel industry in the development of a standardised ESIDEL.

All published ESIDEL standards and those currently under development are available on the EUROFER website at *http://www.EUROFER.org/edifer/index.htm*. Interested parties can actively participate in the development of these topics providing comments and suggestions to many documents available.

Transport

light

Rail

During 2003, a further decrease of the traffic of freight by rail was registered within the EU. The quality of the service remained generally poor. However, national railway companies undertook restructuring initiatives to improve this situation: Stinnes AG (Germany), the logistic branch of Deutsche Bahn AG, was restructured; SNCF (France) and SNCB (Belgium) launched respectively the Veron plan and the Vinck plan to boost the transport of freight. Other railway companies such as RENFE (Spain) and Ferrovie dello Stato (Italy) started to develop a more dynamic freight transport policy in their respective countries. Although these initiatives should improve the efficiency of the international distribution, they could generate an increase of tariffs which might damage all the industrial economic sectors and in particular the steel industry, the largest rail customer in Europe. On March 16th, the EU national railway networks were opened to free competition. Although the European Commission adopted new regulations to improve the rail interoperability within the EU, the granting of corridors was not satisfactory in several countries. The countries that made major efforts to open their national rail networks to free competition were Germany and Belgium.

Road

German authorities intend to establish a toll for trucks over 12 tonnes on their national motorways. In Austria, this initiative has been planned to come into force in January 2004. While EUROFER is not opposed in principle to the introduction of motorway charges, the income derived from such charges should be used for the improvement of national road networks. There is however a concern that hauliers may use such initiatives as a pretext to increase transport tariffs. Furthermore, EUROFER hopes that the accession of 10 new Member States will provide a strong impetus to the harmonisation of national freight transport policies at a European level.

Water

Internal waterways – Throughout this period, the price and capacity of inland waterways transport has remained stable. Nevertheless, the movement of traffic could be optimised through investments aimed at reducing seasonal restrictions (i.e. ice, dryness and the consequent lowering level of water, etc.).

Sea – Sea traffic was affected by two main constraints: the security measures and the associated rigorous controls imposed by the US Administration for freight transported by sea, and the Iraq war. The first engendered a delay of three days to load freight onto boats; the latter had a negative influence notably on the prices of goods, to which a war risk surcharge was applied.

Communication

sophisticated

Publications

Within the *Doha Development Agenda* the Fifth WTO Ministerial Conference was held in Cancun in September 2003 (see the chapter *Trade Policy*). In that occasion, EUROFER issued the expectations and proposals of the EU steel industry towards certain issues, such as market access, anti-dumping, environment, etc.

The launch of the European Steel Technology Platform in March 2004 (see chapter *Technology and Environment*) was supported by the publication of the leaflet European *Steel Technology Platform, Vision 2030*. It illustrates the challenges facing the European steel industry and the ways in which the European Steel Technology Platform will address these challenges and achieve steel industry's long-term goals. The brochure also presents general information on the industry's performance in the past and its commitment, concerns and aims for the future.

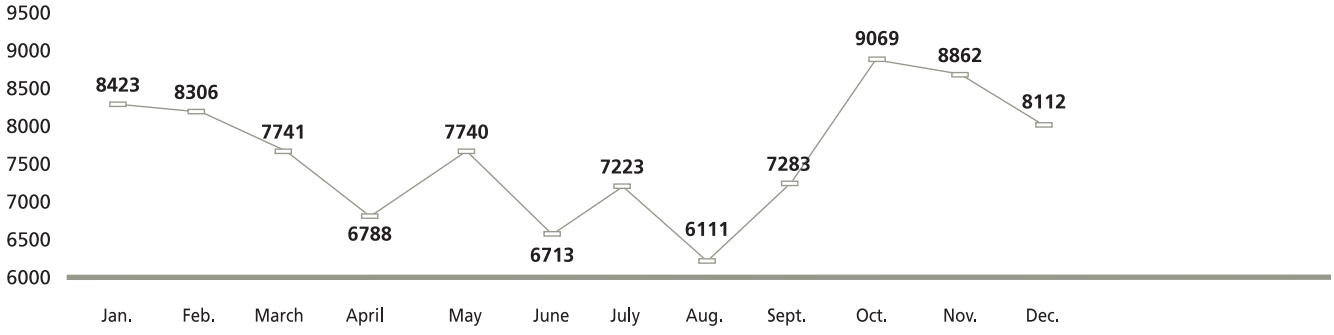
EUROFER publications (free of charge) can be ordered at
http://www.EUROFER.org/publications/index.htm

EUROFER Website

The number of visitors to the EUROFER website continued to grow over the year. The best performance was registered at the beginning of the fourth quarter (9,069 visitors). The average number of visitors during this period was 8,681 per month (+24% compared to the fourth quarter of 2002).

In addition to regular updating (i.e. market report, EDIFER, statistics, etc.) new scrap index prices are now available in the section *Statistics*. These data allow to follow the monthly development of indexed prices of demolition, shredded and new arising scrap during the last five years.

EUROFER Website: Visitors in 2003
Source: Urchin



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Companies

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Badische Stahlwerke - BSW	http://www.bsw-kehl.de
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Corus	http://www.corusgroup.com
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Duferco	http://www.duferco.com
Georgsmarienhütte	http://www.gmh.de
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Halyvourgiki	http://www.halyvourgiki.com/english/
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Lech-Stalhwerke	http://www.lech-stahlwerke.de
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Nedstaal Staal	http://www.nedstaal.nl
Riva	http://www.rivagroup.com
Saarstahl	http://www.saarstahl.de
Salzgitter	http://www.salzgitter-ag.de
Sidenor	http://www.sidenor.gr
Siderurgia National - Empresa de Produtos Longos SA	
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**
	http://www.met.fi/english/asp/preview.asp?docid=4974l
FRANCE	**Fédération Française de l'Acier**
	http://www.ffa.fr
GERMANY	**Wirtschaftsvereinigung Stahl**
	http://www.wvstahl.de
	Edelstahl - Vereinigung
	http://www.stahl-online.de/stahl_zentrum/edelstahl_vereinigung_e_v.htm
GREECE	**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
Içdas Çelik Enerji - Tersane ve Ulasim 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
Novahut	http://www.novahut.cz
Slovenske Zelezarne	http://www.sl-zel.si
Swiss Steel	http://www.swiss-steel.com
Trinecke Zelezarny	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	Hutnicza Izba Przemysłowo-Handlowa http://www.hiph.com.pl
ROMANIA	Uniunea Producatorilor de Otel din Romania – UniRomSider
TURKEY	Demir Çelik Üreticileri Dernegi – DÇÜ http://www.dcud.org.tr

Published by

EUROFER
Association sans but lucratif

Designed by

DESIGNER-INK

Photography by

Pages 6, 8, 24, 30, 48, 52, 56 © Van Parys Media

Pages 10, 34, 46, 50 © Zefa Visual Media Belgium

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