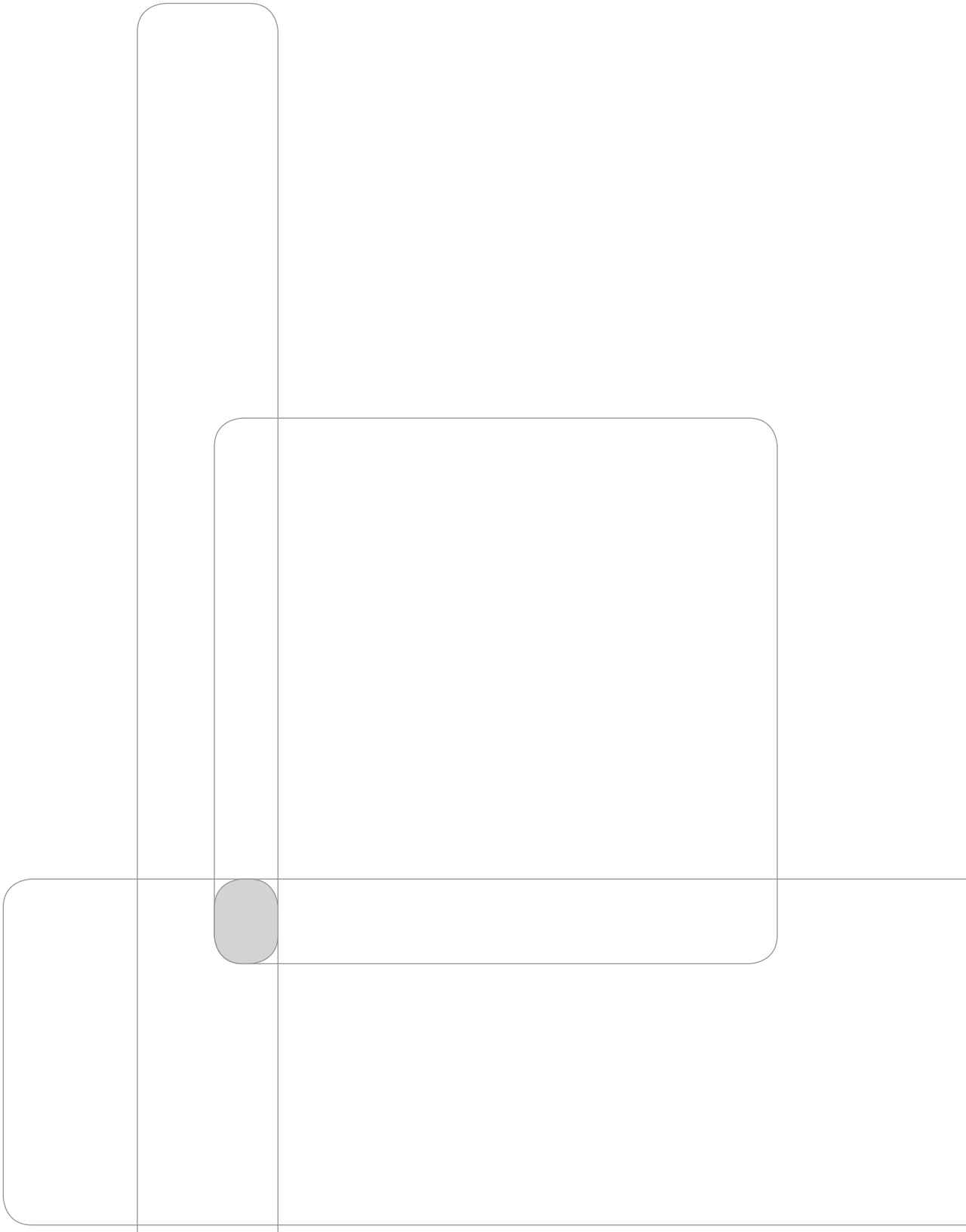
EUROFER

European Confederation of Iron and Steel Industries

Annual Report 2004



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 in Bulgaria, Romania, 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.

Contents

Introduction

2004 was a record year for the world steel industry. Due to the dynamic growth of demand, driven by China, crude steel production world-wide rose by 9% and exceeded 1 billion tonnes for the first time. This development was accompanied by tight supply conditions on the raw material markets with massive price increases leading, by consequence, to increases in steel prices, already rising due to high demand.

In the European Union a stock-build was registered as from the second half year 2004 onwards as orders were placed which began to exceed requirements. Stocks increased further on the back of a surge of imports in the second half of 2004 which continued into 2005. Domestic producers reacted to this situation with substantial production and delivery cuts in order to bring demand and supply into line.

There are now signs of a change for the better. Order intake reached its lowest point in the second quarter and has started to rise again. By means of a continued adaptation of deliveries by individual domestic producers to the level of real consumption, a normalisation of stocks which is clearly underway, and assuming that imports from third countries, which have dropped in recent months, will remain reasonable, a more balanced market situation can be expected for the end of this year. This should allow the price rises, already announced by producers, to stick.

The European steel industry is confronted with the challenge of increasing global competition. In the context of the efforts to strengthen the international competitivity of the European industry, EUROFER welcomes the attempt to re-balance in an equitable way the different policy objectives of the EU to avoid excessive prioritisation of certain policies at the expense of competitiveness. For this reason the European steel industry supports the concept of an impact analysis for new policy initiatives, a systematic monitoring of the cumulative impact of the EU regulatory framework on the international competitiveness of the European industry, and concrete measures to reduce this impact through streamlining and reduction of regulations.

EUROFER believes that the role of the EU must be to facilitate a framework within which industry can flourish and compete. For the steel industry this implies in particular:

- completion of internal market legislation, including the single markets in energy and transport;
- policies aimed at security of supply of energy and raw materials at competitive prices.

In this respect the implementation of the Emission Trading Directive is of major concern to the EU steel industry, the present scheme being characterised by

- a distortion of competition between trading sectors and non-trading sectors and even within the trading sectors themselves;
- a lack of an EU-wide harmonised approach, which is particularly detrimental to transnational companies;
- negative impact on the competitiveness of energy-intensive industries due to higher power prices arising from the scheme.

As a direct result of this scheme, in the short term there is a strong likelihood that the industry will lose business to non-EU competitors, who may not be subject to any CO2 emissions limitations. The net result will therefore be an increase of global emissions and a reduction of employment in the EU.

For these reasons EUROFER urges the European Commission to review the present scheme before entering into the second phase in 2008.

The launch of the European Steel Technology Platform in partnership with the European Commission should be considered as a major instrument for securing the future of the steel industry. After a lengthy and deep process of restructuring, the European steel industry runs today the most modern and efficient facilities worldwide. The Platform expresses the steel industry's determination to consolidate and to strengthen its international leadership in the context of competitive and sustainable growth through innovation, research and development. Emphasis is laid on the development of breakthrough technologies and the subsequent promotion of new production processes for products that will satisfy the constantly evolving demands of consumers. The steel industry is aware of the fact that in order to meet the challenges of the future, determined long-term and structured actions supported by all stakeholders are required.

Guy Dollé
President

Dietrich von Hülsen
Director General

General Economic Development

The performance of the European economy in 2004 was once again disappointing. The situation within the EU varied enormously, with certain economies such as the UK, Sweden, Spain and the 10 new members growing strongly. However, conditions in the euro-zone remained problematic. Recovery in the euro-zone took hold to some extent in the first half of the year. However it remained weak, patchy and was heavily dependant on external demand. This dependence of the euro-zone on final demand generated elsewhere and its failure to stimulate demand in the domestic economy meant that what recovery there was in 2004 was largely export-led. The risks inherent in this exposure to developments in the international economy became apparent in the second half of the year as the pace of growth in several regions worldwide, notably the USA, Japan and China lost some momentum at least temporarily and as the use of the euro relative to the dollar began to impact on the international competitivity of European manufacturers.

Conditions for industry in Europe remained challenging with both business and consumer confidence at low levels. Expectations of a marked improvement in business investment proved unfounded as prospects were dented by stronger commodity prices, a strong euro intensifying global competition particularly from China and persistently high oil prices. Consumer expenditures was restrained by virtually static employment growth.

Europe was really the exception to the very dynamic economic conditions in almost every other region of the world.2004 was the best year for world economic growth for three decades with global GDP growth at 4.5%, and world trade grew by 9% helped by factors including rising corporate profitability, improved stocks markets, strong housing markets, gains in employment, and, especially accelerating industrial development in emerging economies.

In the USA expansion of 4.5% was driven by low interest rates and tax cuts. Growth in Japan of 4.1% exceeded even the most optimistic expectations but was based not on developments in Japan but in China. The rest of Asia grew at just under 8%. Growth in eastern Europe and Russia was extremely dynamic and expansion in the emerging economies of Latin America and elsewhere accelerated, fed by the strong rise in commodity prices. The upturn in the world economy was broad-based. However, the key to the expansion was China. The Chinese economy indeed had reached growth rates in the first half of the year which were becoming unsustainable. Measures were introduced aimed at controlling growth and investment in certain key sectors which were becoming overheated. These measures appear to have induced a controlled slowdown in the second half of the year, gradually moderating the rate of investment as a proportion of GDP and slowing growth to a more sustainable level while avoiding a meltdown.

Development of Certain Elements of the EU Economy
Yearly Variations in%
Source: EUROFER

	2003	2004	2005 (forecast)
GDP	0.9	2.3	1.9
Private Consumption	1.3	1.6	1.8
Investments	-0.1	2.8	3.0
of which:			
Investments in equipment	-1.0	3.7	3.2
Exports	1.2	6.4	5.7
Imports	3.0	6.6	6.0
Unemployment rate	9.7	9.5	9.4
Inflation	2.1	2.2	2.0

Steel Market

Consumption

In contrast to the rather unexciting economic performance in the EU last year, conditions on the steel market in Europe were extremely good. Steel using sectors benefited from the robust global expansion with those sectors active on export markets – machinery and equipment manufacturers, automotive, tubes – doing rather better than those reliant on European markets, notably construction which remained poor particularly in Germany.

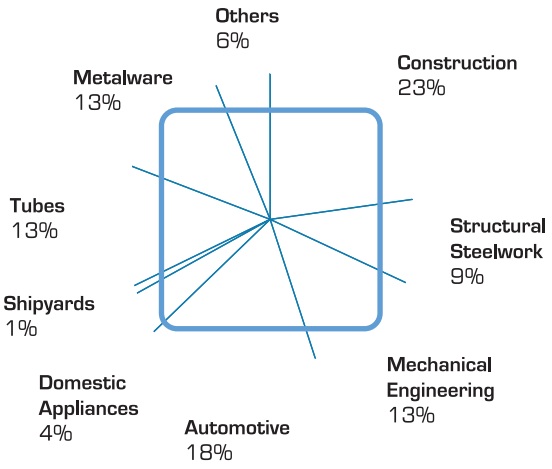
On the basis of export demand, order levels and activity in the industrial sector was particularly strong in the first half of 2004 but slowed in the second half as economic activity worldwide moderated.

In the course of 2004, real consumption grew by just under 3% with growth peaking in the second quarter. Demand conditions remained extremely dynamic throughout the year with the intense economic activity worldwide generating a very high demand for steel and creating tight supply with, globally, demand for steel for the first time rising above one billion tonnes. For the first time in many years demand – at least temporarily – surpassed supply. In Europe supply was not a problem but inevitably such rapid growth in demand did produce some tensions especially since imports into Europe fell back substantially in the first part of the year. The situation eased towards the end of the year as China in particular applied the brakes to its economy.

The vigorous development of apparent consumption in 2004, the tight supply conditions on domestic and global steel markets and rising prices for steel products fuelled order intake and resulted in high levels of steel demand. As a result stocks at end users in the distribution channel rose markedly. Stocks by the end of 2004, again being fed by rising imports, were seen as too high in relation to the slower business activity levels of steel stockists and end-users. This began to weigh on demand at the end of the year and would require in 2005 an adjustment of production levels to reduce stocks levels, bringing supply into line with a more subdued demand picture.

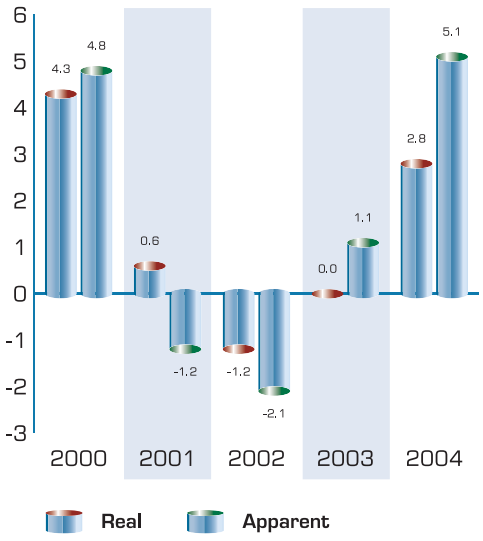
Share of Consumption by Steel-using Sector

Source: EUROFER



Real and Apparent Consumption: Yearly Variation (in %)

Source: EUROFER



Steel Market

Imports

Inevitably steel prices rose strongly in 2004 as steel makers tried to recover unprecedented cost increases across the whole range of their raw materials and as they started to improve their margins to levels enjoyed routinely by other comparable major industrial sectors – a necessary requirement if the steel sector is to be able to attract investors by offering an attractive return on capital. Perversely, it was the comparatively slower pace of price increases in Europe in the first part of 2004 which helped create the conditions for the strong development of prices on the EU market later. Higher prices elsewhere meant that the EU market was comparatively unattractive to exporters who therefore directed material elsewhere. Imports into the EU therefore fell substantially in the first half of the year. This was one of the elements – together with some production constraints due to raw material shortages – which led to the perception of supply tightness and helped drive through the price increases seen in the course of 2004.

Imports of flat products – although not of long – fell substantially in the first half of the year as exporters directed their material to the booming markets of China and Asia in particular. Unfortunately this situation did not last. As measures were introduced in China to slow investment, particularly in construction, the pace of steel consumption there fell. Exports to China fell but at the same time China became a net exporter as its own exports of finished products were expanded. At the same time all those countries which had been exporting their steel products to China or whose economic growth was based on Chinese demand now saw their own consumption of steel products begin to fall and their exports to China reduce. They began to look for other markets. With the rise of the euro against the dollar the European market began to attract these tonnages and imports began to rise substantially from the second half of the year. Total EU imports were 22,5 Mio t in 2004, just over 1 Mio t higher than the previous year.

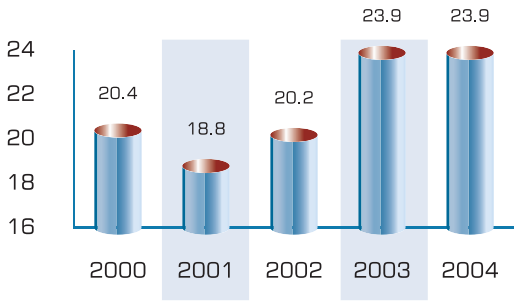
Exports

Exports in 2004 remained at the same level as the previous year, just under 24 Mio t which meant that the EU retained the small trade surplus in steel products which it had regained in 2002 and 2003 after several years of trade deficit following on from the Asian crisis. Exports in 2004 would have been higher given the very strong demand levels globally, but for the tight conditions on the European market which led domestic producers to prioritise the supply needs of European customers.

Finished Products Including Semis: Exports

(million tonnes)

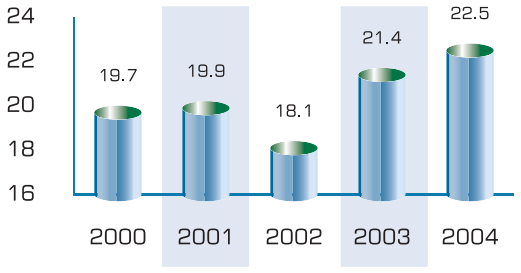
Source: Comext - Eurostat



Finished Products Including Semis: Imports

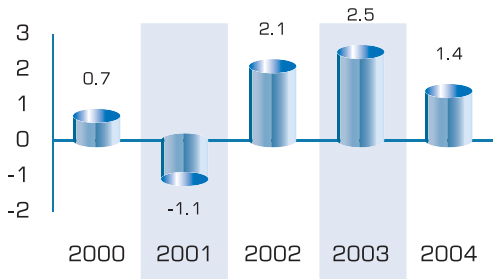
(million tonnes)

Source: Comext - Eurostat



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

Source: Comext - Eurostat



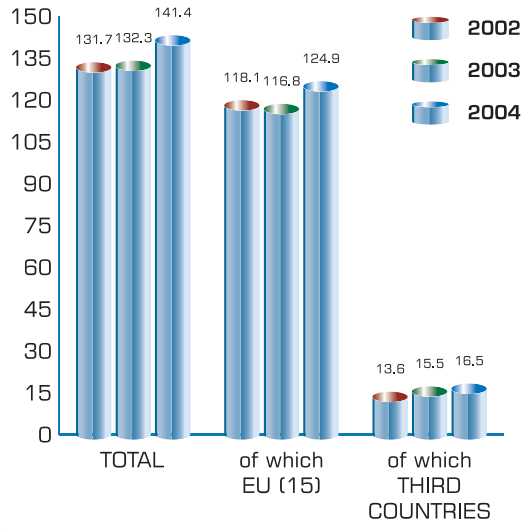
* trade balance = exports - imports

Deliveries of Carbon Steels

The high demand worldwide for carbon steel, due to the emergence of China, gave rise to a favourable development of the deliveries of the European producers. Inside of the European Union this development was supported by a temporary reduction of third countries imports during the first half of the year.

Carbon Steel Deliveries	**+ 6,9%**
of which to EU (15) markets	+ 7,0%
of which to export markets	+ 6,6%

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

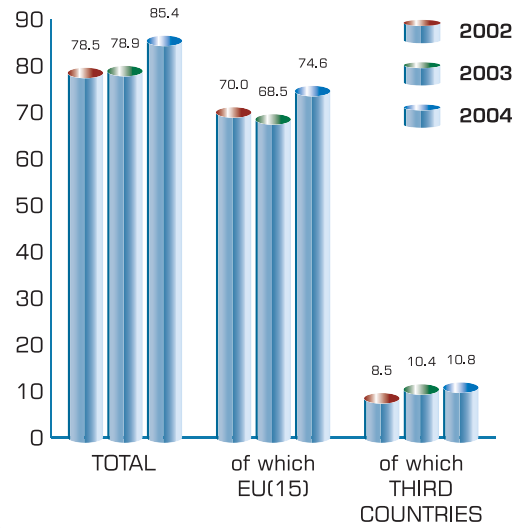


Flat Products

At the beginning of the year the constraints on steel production due to shortages in raw material supply and longer lead times of the producers gave customers reason for concern, that their supply needs could not be sufficiently covered. As a consequence orders placed outstripped consumption, stocks grew and reached a level at the end of the year which was too high.

Flat Products Deliveries	**+ 8,0%**
of which to EU (15) markets	+ 8,9%
of which to export markets	+ 4,0%

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



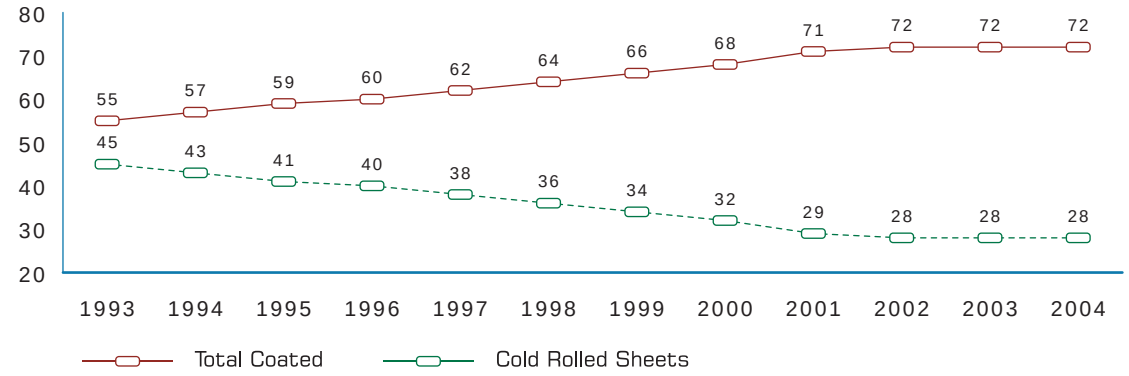
Deliveries of flat products within the EU(15) showed considerable increases: coated sheets (+10,3%), quarto plates (+10,0%), h.r. flat products (+9,8%). With other flat products the growth rates were lower: c.r. sheets (+5,7%), electrical sheets (+3,7%) and black and tin plate (+1,8%).

Regarding domestic deliveries alone, substitution of uncoated cold rolled sheets by coated material has remained steady. However, add to this imports from third countries and substitution has increased. Deliveries of hot dipped galvanized sheets in the EU15 improved by 12,6% and organic coated sheets were up by 9,6%. Deliveries of electro-zinc coated material stagnated (+0,6%) after a sharp reduction in the three preceding years.

Steel Market

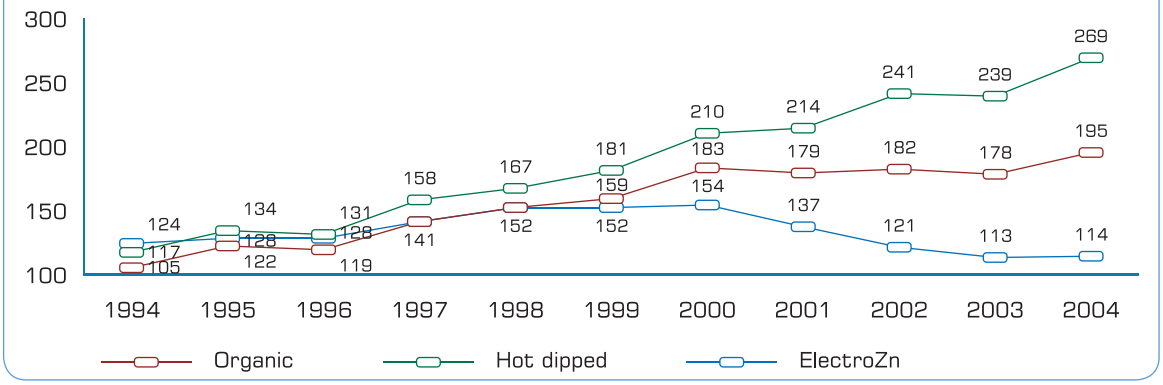
Carbon Steels: Deliveries Structure of Cold Rolled Products (in %)

Source: EUROFER



Carbon Steels: Development of Coated Products Deliveries within the EU (15) (index: year 1993=100)

Source: EUROFER



Total exports of flat products to third countries improved by 4,0%. On one hand growing demand in some regions of the world (with partially higher price level than in Europe, at least at the beginning of the year) made exports attractive. On the other hand, the shortage of materials and the strengthening of the euro versus the dollar and the sharply increased freight rates made for most European producers the supply of domestic markets a priority.

The best performance showed the exports of quarto plates with an increase of 24,7%, favoured by the world wide strong demand of pre-material for tubes. There was also a considerable growth of exports of tin and black plate (+15,4%) whilst hot rolled flat products only showed a moderate increase of 3,5%. Deliveries to third countries of coated sheets (–6,4%) and cold rolled sheets (–2,5%) reduced.

Export regions with strong increases were the United States (+51,8%, after a strong reduction in 2003), Canada (+49,9%), Russia (+26,0%) and India (+23,0%).

Exports to Asia (without India) with a decrease of 32,3%, Africa (–21,0%) and Central and South America (–10,8%). EU deliveries to China dropped by 54,6%.

Long Products

The worldwide boom in demand affected also long products. However, because of the still depressed situation in the construction sector the market supply of the European Union rose by only 2,6%, a lower rate than for flat products.

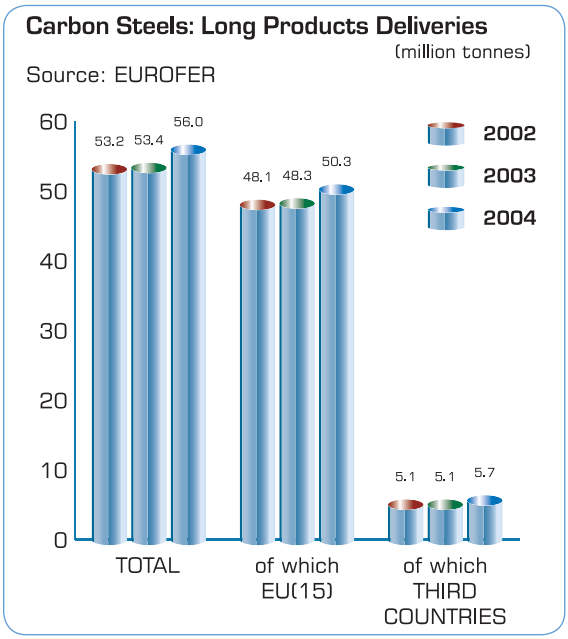
Imports from third countries decreased by 7,1%. European producers increased their deliveries to the EU (15) by 4,3%.

Long products deliveries:	**+ 5,0%**
of which to EU(15) markets:	+ 4,3%
of which to export markets:	+ 11,7%

Deliveries within the EU increased with wire rod (+7,0%), reinforcing bars (+4,6%) and for railway material (+ 3,9%), for heavy sections (+2,8%) and for merchant bars (+1,0%). The deliveries of sheet piling were reduced by 2,1%.

Favoured by the strong demand from third countries, total exports of long products increased by 11,7%. Exports to the United States increased by 47,2%, to Central and South America by 29,9% and to Canada by 25,7%. With the exception of the Chinese market (+20,9%) exports to Asia were reduced by 10,6% and deliveries to Africa decreased by 12,7%.

Deliveries to third countries showed a positive development with wire rod (+38,8%), merchant bars (+11,2%) and to a lower extent with reinforcing bars (+4,9%) and sheet piling (+2,5%). Decreases were noted with heavy sections (–2,0%) and railway material (–2,5%).



Deliveries of special steels

The key factors which influenced the evolution of the special steels market in 2004 were, on the one hand, the considerable increase in the cost of scrap and alloying elements, on the other hand the rising activity triggered by the strong economic growth in China and other overseas markets

Total deliveries of special steels increased by 11%, a significant improvement attributable to a recovery of supplies to the EU market (+ 11,3%) and to a better export performance (+ 8,9%).

Stainless steels

Deliveries of long and flat products by EU stainless steel manufacturers in 2004 developed as follows compared to the previous year:

Total stainless steel deliveries:	**+ 5,4%**
of which to EU markets:	+ 6,4%
of which to third countries:	+ 2,1%

During the first half-year 2004, the market of stainless steel flat products was stimulated by an active apparent consumption, speculation on rising raw material costs and fears of a short-supply situation partially linked to disruptions of production in several European mills. The impressive growth of consumption in China was also an essential driver for higher demand, worldwide. As from the summer of 2004, whilst demand remained fairly sustained on export markets, the order intake started to decline in Europe, consequent to the seasonal effect but also to the sluggish growth of domestic consumption as the economic recovery remains subdued in the European Union. At the end of the year, it became clear that supply of the European market had exceeded consumption, all the more so as the year 2004 had seen a further growth of imports from third countries. The strength of the euro vs the dollar, the volatility and high levels of alloys and scrap prices exerted a major influence on the stainless steel market.

Steel Market

Alloy prices, especially those of nickel and molybdenum, rose to historical peaks on the international market.There are doubts that this is a true reflection of the supply and demand situation as the EU stainless steel producers were not actually confronted with raw material shortages.

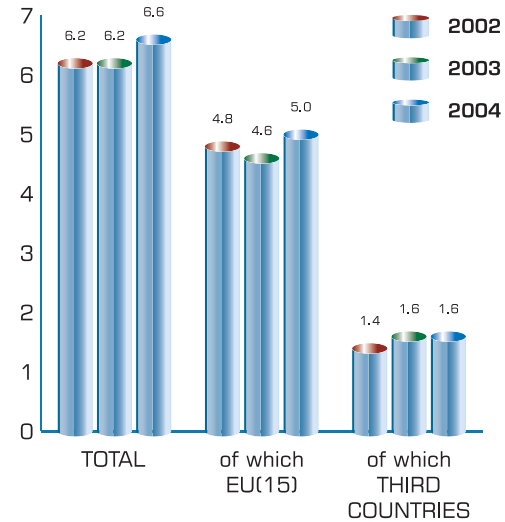
The trend witnessed in the long products sector during 2004 was quite similar to the evolution of the flat products segment, i.e. a robust demand and activity levels during the first half-year followed by a deceleration in the second part of the year. Whilst total shipments by EU stainless steel flat products manufacturers grew by 4,4% in 2004, the growth recorded for hot rolled long products deliveries was close to 10% year-on-year.

For the total of stainless steels, the market supply of the European Union grew by 8,4% in 2004. The comparable growth rate of imports from third countries was + 32% and the market share reached 9,5%. The continuous increase of import penetration in the cold rolled flat products market as well as for wire rods is a serious cause of concern for the EU producers.

Stainless Steels: Development of Deliveries

(million tonnes)

Source: EUROFER



Alloy Engineering, Tool and High Speed Steels

Compared to 2003, deliveries by EU producers in 2004 showed a marked recovery :

Engineering, tool and high speed steels total deliveries:	**+ 15,3%**
of which to EU markets:	+ 14,5%
of which to export markets:	+ 24%

Although domestic consumption in the Euro-Zone remained generally sluggish, the buoyant global economy and the rising final demand in other parts of the world had a positive effect on the activity of EU producers in this product range. The automotive industry continued to generate a sustained demand, which was primarily export- led, and a significant growth was also noted in several consuming industries such as commercial and industrial vehicles, earth moving machinery, forgings and springs manufacturing, the mining sector.Activity also improved in the mechanical industries, albeit erratically. Compared to 2003, the deliveries of alloy engineering steels by EU producers in 2004 grew by 15% on the Community market and by 31% on third countries markets.The market share of third countries' imports into the EU was practically unchanged at 7,3%.

The EU producers' shipments of tool steels in 2004 increased by 5% and those of high speed steels by 10%, whereby the main growth was recorded for supplies into the EU. Key customer sectors for these highly value-added products are the automotive industry, tool and cutting tool manufacturers, electronic industries and consumer goods.

The year 2004 was characterised by an unprecedented rise in the cost of scrap and ferro-alloys, leading to significant price increases for the whole range of alloy engineering, tool and high speed steels.

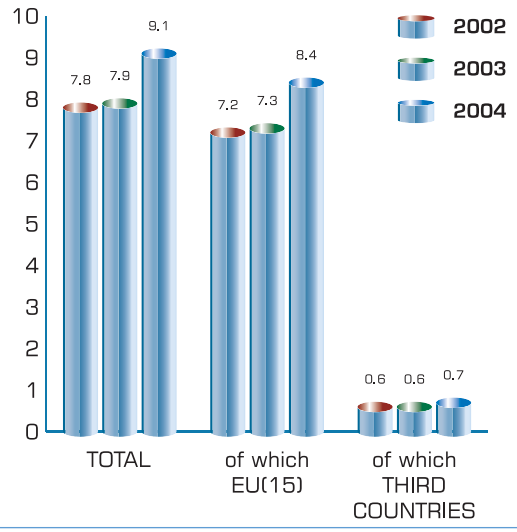
In the first part of 2005, demand from most of the key customer branches was stable at a high level and the EU producers' strong or-

der books resulted in long delivery lead times. The outlook for the second part of the year will very much depend upon the global economic performance led by the growth rate in China, the Euro/ US Dollar exchange rate evolution and the customers' ability to absorb the important price increases caused by soaring raw material costs.

Alloy Engineering, Tool and High Speed Steels: Development of Deliveries

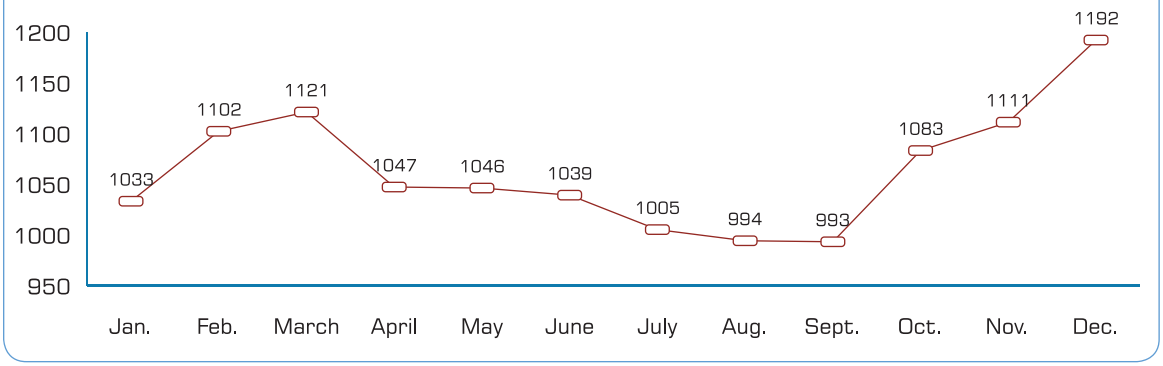
(million tonnes)

Source: EUROFER



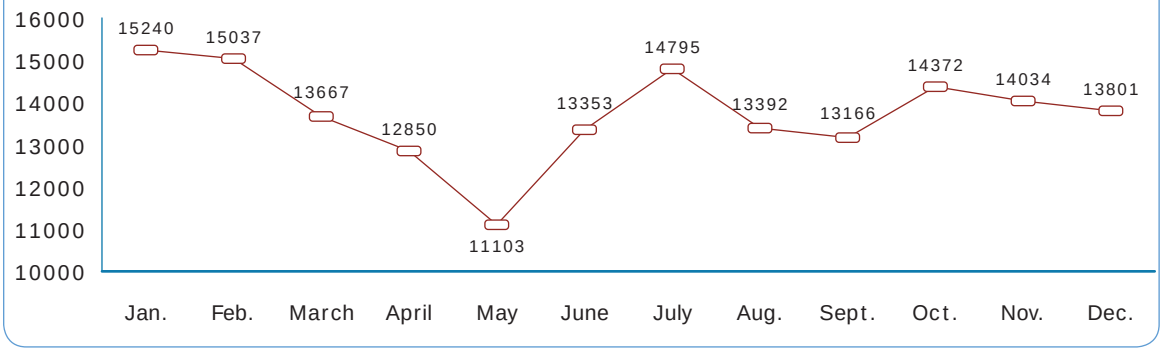
Zinc: Monthly Development of Quotations in 2004 (US$/tonne)

Source: Metal Bulletin



Nickel: Monthly Development of Quotations in 2004 (US$/tonne)

Source: Metal Bulletin



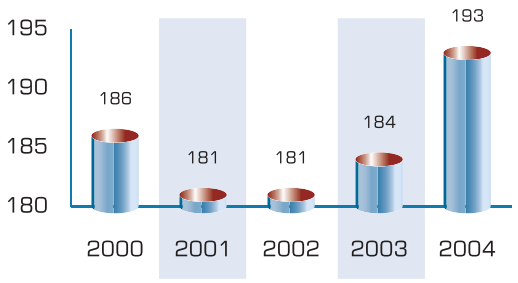
Steel Market

Crude Steel Production

With 193.3 million tonnes the crude steel production in the EU (25) showed an increase of 5,1%. The production in the ten new member states rose with 6,8% stronger than in the former European Union (15) with 4,9%.

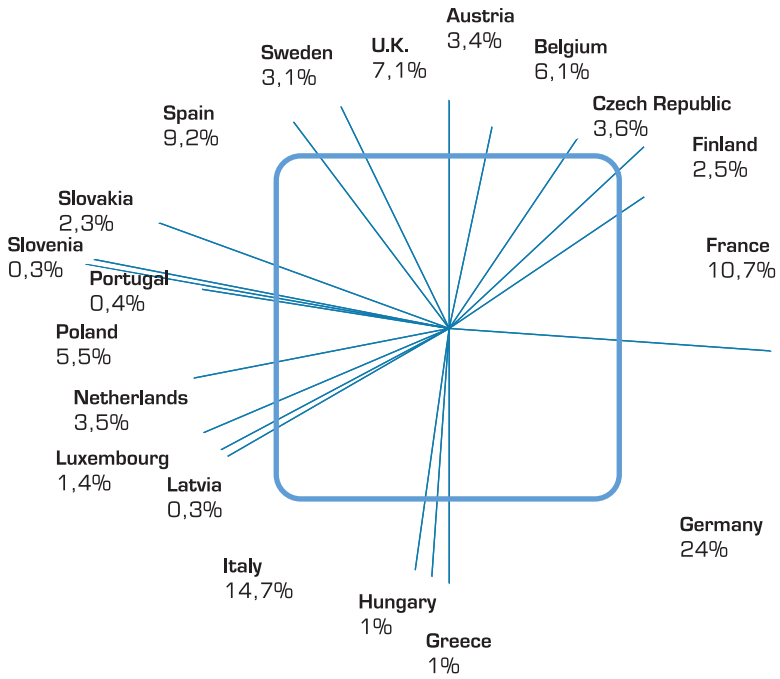
EU Crude Steel Production (million tonnes)

Source: EUROFER



EU Crude Steel Production Geographical Breakdown

Source: EUROFER



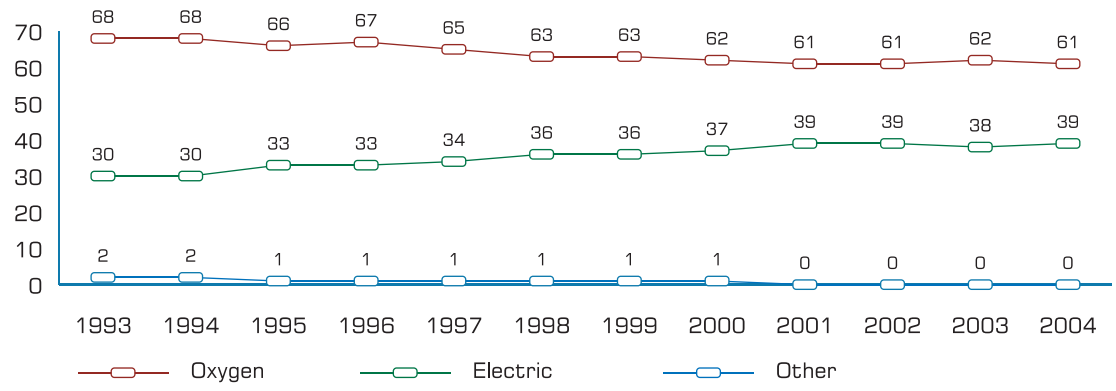
EU Crude Steel Production (million tonnes)

Source: EUROFER

EU COUNTRIES	2004	2003	2004/2003 (% changes)
Austria	6,5	6,3	4.3
Belgium	11,7	11,1	5.3
Czech Republic	7,0	6,8	3.7
Denmark	0.0	0.0	0.0
Finland	4,8	4,8	1.4
France	20,8	19,8	5.1
Germany	46,4	44,8	3.5
Greece	2,0	1,7	15.6
Hungary	2,0	2,0	-1.9
Ireland	0.0	0.0	0.0
Italy	28,3	26,8	5.5
Latvia	0,5	0,5	0.0
Luxembourg	2,7	2,7	0.3
Netherlands	6,8	6,6	4.2
Poland	10,6	9,1	16.3
Portugal	0,7	0,7	-0.3
Slovenia	0,6	0,5	4.2
Slovakia	4,5	4,6	-2.9
Spain	17,7	16,3	8.6
Sweden	6,0	5,7	4.8
United Kingdom	13,8	13,1	4.9
EU 25	**193,3**	**183,8**	**5.1**

EU Crude Steel Production by Process

Source: EUROFER

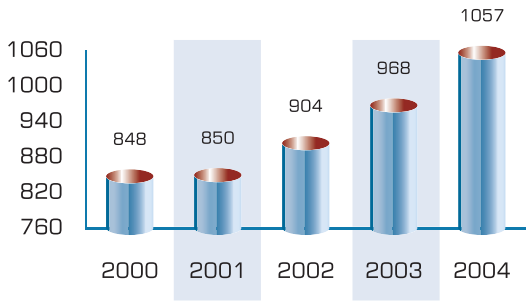


Steel Market

In 2004, world steel production reached 1057 million tonnes (+9,2%), exceeding for the first time one billion tonnes. China, as the largest producer in the world reached 272 million tonnes, representing a growth of 23,2% compared to 2003.

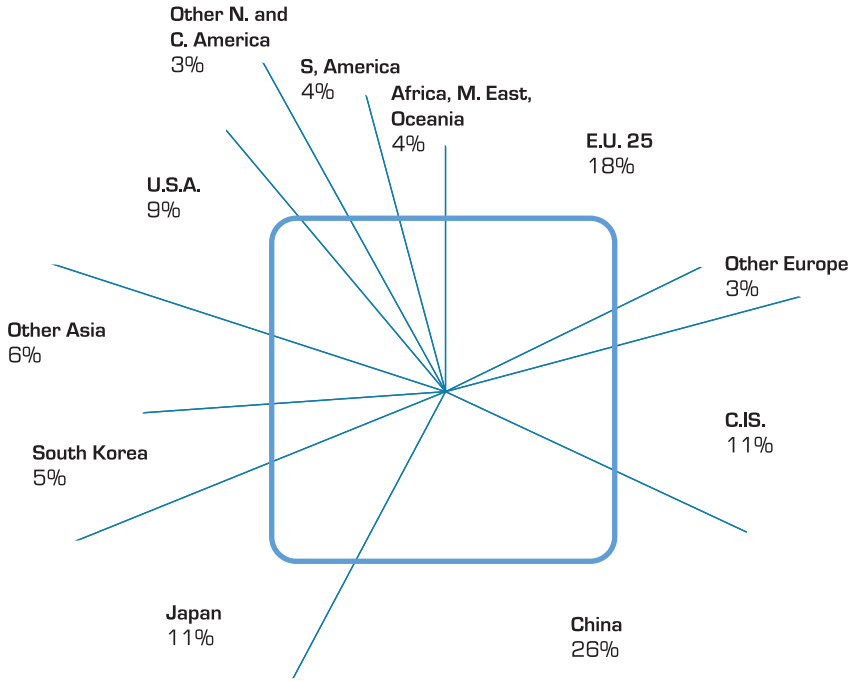
World Crude Steel Production (million tonnes)

Source: IISI



World Crude Steel Production Geographical Breakdown

Source: EUROFER



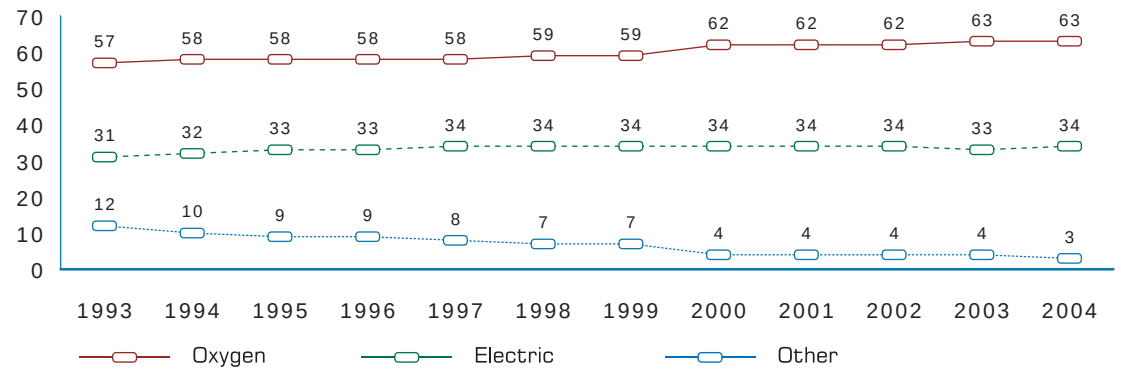
World Crude Steel Production (million tonnes)

Source: IISI

GEOGRAPHICAL AREAS	2004	2003	2004/2003 % changes
World	**1056,5**	**967,7**	**9,2**
Europe	**225,5**	**213,0**	**5,9**
EU 25	193,3	183,8	5,1
CIS	**113,1**	**106,2**	**6,5**
Russia	65,7	61,5	6,9
Ukraine	38,7	36,9	4,9
Asia	**499,5**	**441,2**	**13,2**
China	272,5	221,2	23,2
Japan	112,7	110,5	2,0
South Korea	47,5	46,3	2,6
North and Central America	**133,3**	**126,2**	**5,6**
USA	98,9	93,7	5,6
South America	**45,9**	**43,0**	**6,6**
Africa,Middle East and Oceania	**39,2**	**38,1**	**2,9**

World Crude Steel Production by Process

Source: IISI



Trade Policy

Bilateral Agreements with Russia, the Ukraine and Kazakhstan

EUROFER welcomes the successful conclusion of discussions to extend the bilateral agreements with Russia and Kazakhstan for two more years or until these countries join the WTO. These agreements were scheduled to expire at the end of 2004. Both were extended with increases in the export quotas to the EU, increases which follow the principle of the agreements which allow for a progressive liberalisation of trade between the parties.

The bilateral agreements are good examples of constructive means to deal with specific problems being faced by economies in transition. They provide measured but guaranteed access to EU markets through quotas which are progressively increased over time. These quotas, while fairly non-restrictive do provide the EU market with security against import surges during the period in which these countries have had to restructure their enormous capacities and re-build domestic consumption. It is an equitable and balanced solution to the trade problems which could have resulted from the industrial transformation underway in these countries.

Moves were also started by the European Commission in the course of 2004 to re-establish a bilateral agreement on steel with the Ukraine. The existing bilateral agreement had been suspended before it came into force in 2002 following the imposition of various restrictive measures by the Ukraine on scrap exports. While the motivation of the Commission in opening discussions with the Ukraine – the placing of relations on a sound footing – was laudable, in the view of the EU industry the additional quota levels being offered by the Commission were inappropriate especially in the light of the failure of the Ukraine to lift the restrictions on scrap exports. An eventual compromise was reached between the member states and the Commission whereby the Commission was mandated to re-activate the suspended agreement for the remainder of 2004 and negotiate a new agreement for 2005 and 2006 but for a lower tonnage than originally offered.

Trade Defence against Third Country Measures

EUROFER continued to work closely with the European Commission in 2004 to combat restrictions to trade provoked by third country measures. In 2004 these took the form of restrictions on scrap exports, notably by Russia and the Ukraine; restriction on exports for coke by China and the irregular opening of an anti-dumping investigation by Russia on EU exports of stainless flat products. Restrictions on scrap exports by Russia and the Ukraine are a long-standing issue and are contrary to the bilateral agreements with these countries. In both cases in the context of the negotiations in 2004 on new agreements the Commission remained firm as regards the penalties which have been imposed on both countries – quota cuts – as a result of these breaches of the agreements. In the context of an extremely tight market for scrap it is imperative that trade in this essential raw material be allowed to flow freely. In addition, the Commission recognised that the artificially low prices for scrap which are maintained in the countries concerned by these restrictions give an unfair cost advantage to their steel producers who are competing with the EU industry on world markets.

In 2004 the world steel industry was confronted with huge increases in raw materials costs largely as a result of the emergence of China onto world commodity markets. A particular difficulty arose for the EU steel industry in obtaining supplies of metallurgical coke due to WTO-inconsistent export restrictions imposed by China. China indeed has become the supplier of final resort and now accounts for more than 50%of international coke trade. The sudden decision by the Chinese authorities to cut coke exports by 50% by restricting the allocation of export licences led to an explosion of prices. Coke which typically traded at $65/tonne fob in previous years suddenly increased in price to $460 fob. The problem was ex-

acerbated by the trading of export licences which themselves acquired a value in excess of the coke itself.

Recognising that the restrictive export licence regime operated by China was illegal, the Commission reacted vigorously. It sought the ending of the export licence regime and the lifting of restrictions on exports. The results achieved were essentially pragmatic and meant in practical terms that while export restrictions have not yet been entirely lifted nevertheless the requirements of EU producers are likely to be satisfied and, as importantly, prices have returned to a more acceptable level.

The EU stainless flat producers were confronted in 2004 with an anti-dumping investigation by the Russian authorities which risked shutting them out of the Russian market. Although the EU producers were not the importers of the material into Russia they were implicated since the material was of EU origin. It soon became apparent that, rather than involving dumping, this case revolved around issues related to customs declarations and tax issues of no relevance to the EU producers. Nevertheless the consequences of anti-dumping measures would have been severe for the EU industry. One of the major activities of the European Commission's anti-dumping department is in combating cases such as this – anti-dumping procedures launched without regard to due process or WTO rules or on the basis of spurious allegations. While this case is not yet settled, intervention by the Commission has succeeded in bringing the Russian authorities to the table, has allowed clarification of certain issues and may result in a more satisfactory outcome for EU industry than would otherwise have been the case.

World Trade Organisation (WTO) – Doha Round

Rules Negotiations

The Russian case highlights one of the major difficulties facing EU industry – the increasing use of anti-dumping by third countries, often with scant regard to the rules. These are, at their most simple and blatant, barriers to trade. At present once an anti-dumping procedure is engaged, regardless of its justification in fact, it can take up to two years to overturn it. EUROFER fully supports the objective of the Commission in the rules negotiations in the current WTO Round of the introduction of a Swift Control mechanism to tackle at an early stage flawed initiations. Other improvements in the way in which the anti-dumping instrument is used by different WTO members are essential, are now being sought by the Commission in the negotiations and have our full support – improvements aimed at creating a level playing field, at countering the abuses in the present system and at a harmonisation of the implementation of the existing WTO AD agreement preferably towards the EU anti-dumping standards.

EU – USA

Our trade relations with the US continue to be influenced by a series of existing disputes:

1916 Act
This was finally repealed in 2004 following as a result of a WTO case against it following its use by US steel companies to attack steel imports.

The Byrd Amendment
The Byrd Amendment provides for the proceeds from US anti-dumping duties to be paid to the complainant companies. There have been repeated WTO findings that this is incompatible with world trade rules and we welcome the authorisation for the EU and others to impose retaliatory measures against the US.

Zeroing
A WTO dispute panel has now been appointed to hear the EU's complaint against the US Commerce Department's practice of "zeroing" in anti-dumping investigations. Effectively, the Commerce Department excludes from its dumping calculations, sales that are made at non-dumped prices, thereby artificially inflating the dumping margins and consequently anti-dumping duties.

Facts Available

The EU has requested consultations in view of eventually requesting a Panel over the misuse by the Commerce Department of the 'facts available' clause citing a case where excessive duties were applied where the company concerned cooperated but was unable to supply all the data requested. This type of practice by the US authorities has long been a subject of complaint by EU industry.

The Commission is strongly focused on all of these issues and others affecting the ability of the EU steel industry to export to the USA.

OECD Negotiations on a Steel Subsidy Agreement

Talks at the OECD aimed at reaching an agreement were suspended in June. Positions appear still far apart. EUROFER supports an SSA that would impose on other countries the same level of anti-subsidy discipline that exists in the EU. We remain in favour of an agreement but only one which is effective, enforceable and which has teeth. An agreement should be focused on subsidies which maintain excess inefficient capacities or which create new capacities. It should not impede R&D, or environmental measures which go beyond regulatory requirements and must provide for an accommodation of the negative impact on international competition of the implementation of the Kyoto Protocol.

It remains to be seen if the conditions to restart talks between governments will exist in 2005.

Raw Materials

Iron Ore

2004 was a year of unprecedented demand growth for steel, driven by China, leading to a tight supply-demand balance for iron ore and other raw materials. In the EU15 in 2004 pig iron production rose by a further 2 Mio t to 93 Mio t from the already high level of the previous year. Imports of iron ore rose 3 Mio t to 138 Mio t.

Seaborne traded iron ore worldwide again reached an absolute record of 596 Mio t, following on from the records established in the two previous years. This was an increase of 59 Mio t over the level of 537 Mio t of the previous year. Imports into China reached 201 Mio t, an increase of nearly 60 Mio t. China now accounts for just under 35% of world seaborne trade in iron ore. Iron ore prices rose as a consequence. The FOB reference price for fines rose by 18.62%. The lump premium rose by 9,94% and that of pellets rose by 25.43%.

However, the development of the demand/supply balance has led to the development of capacity expansion plans by ore producers and these should begin to influence supply levels next year and especially in 2007.

Coal

During the year coal supplies became tighter due to higher demand and also to supply disruption in the USA and in Australia, with difficulties with some mining operations and with port congestion. China became a net importer of coking coal for the first time which increased tension on world supplies. Prices rose to about $/t 55-57 an increase of between 15-20%.

Coke

In 2004 the steel industry faced huge cost increases for coke supplies, due in no small part to the policy of the Chinese authorities in restricting exports of coke. The large coking capacity closures, notably in Europe and the US, which amount to more than 17 Mio t since 1998 have intensified the EU's reliance on supplies from imports. China has become the supplier of final resort and now accounts for more than 50% of the international coke trade.

China is the world's largest producer of coke with production in 2004 of 177 Mio t of which 14,9 Mio t were exported, 4,9 Mio t to the EU market.

At the beginning of 2004 China suddenly stopped its annual allocation of export licences for coke and began issuing licences only in small quantities. It indicated that the allocation for export in 2004 would be cut almost in half to around 8-9 Mio t.

This sudden restriction had a major price impact on the world market for coke. Coke, which typically had traded for $/t 65 FOB in previous years, rose to $/t 460 FOB. Supplies became difficult to obtain, production programmes of European steel producers began to be affected.

At the urgent request of EUROFER the Commission began, in February 2004, to take this matter up with the Chinese at a high political level and this resulted later that year in an understanding that in principle would ensure Chinese exports in 2004 at levels similar to 2003 and which would allow supplies to EU consumers at levels the same as in previous years.

It also tackled the root causes of the sudden price inflation – the number of intermediaries in China allocated coke export licences which were subsequently sold on, and, the operation of the export licence system itself which would now be subject to review by the Chinese authorities.

The understanding reached was essentially pragmatic. It did result in prices falling on world markets to more acceptable levels and it eliminated the worst of the price differential between export prices and the prices of coke sold domestically in China. In addition, European steel producers could have more confidence in supplies from China being available for the rest of the year.

Raw Materials

Scrap

There were unprecedented price rises in the EU in 2004 ; unprecedented both in the price levels reached and in the monthly variation of prices which displayed a degree of volatility which was unusual to say the least.

This extreme volatility led EUROFER, in March, to make a request to the European Commission to equip itself with all the necessary instruments to more closely monitor the development of the market. By this we meant the extension to scrap of the system of prior surveillance currently in place for certain finished steel products. This system has proved its worth in providing a very rapid precursor of import trends.

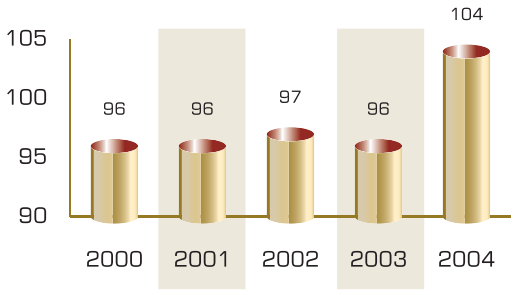
Indeed, the EU scrap market is very finely balanced where any additional demand or supply has an immediate impact on availability and prices. Trade flows in this situation are a key factor driving developments on the EU scrap market. What EUROFER was seeking therefore was an additional mechanism to have clear and more timely information on trade flows.

Tension on the scrap market was coming from strong demand levels from electric arc furnace producers but also from integrated producers who, faced with rising prices of iron ore coal and coke and with tightness in supplies, increased their consumption of scrap in converters. Consumption of scrap in the EU15 in 2004 rose to 92,9 Mio t up from 86,6 Mio t in the previous year, an increase of 7.3%. With the addition of the 10 new members of the Community in 2004 scrap consumption in the enlarged community rose to 104,3 Mio t from 95,8 Mio t in 2003, an increase of 8.9%.

The enlargement of the EU to 25 members changed the external trade picture of the community. Previously with only 15 members the EU had, until 2002 – from the consumer point of view – a positive trade balance in scrap, with more imports than exports. This had gradually changed to a broad balance of imports and exports by 2003. In contrast with 25 members the EU is a clear net exporter of scrap since the 10 new members export more scrap outside the EU than they import. In 2003 for example EU15 scrap exports would have been 2,5 Mio t higher than imports. In 2004, for the EU25 exports were 9,6 Mio t while imports were 8,2 Mio t.

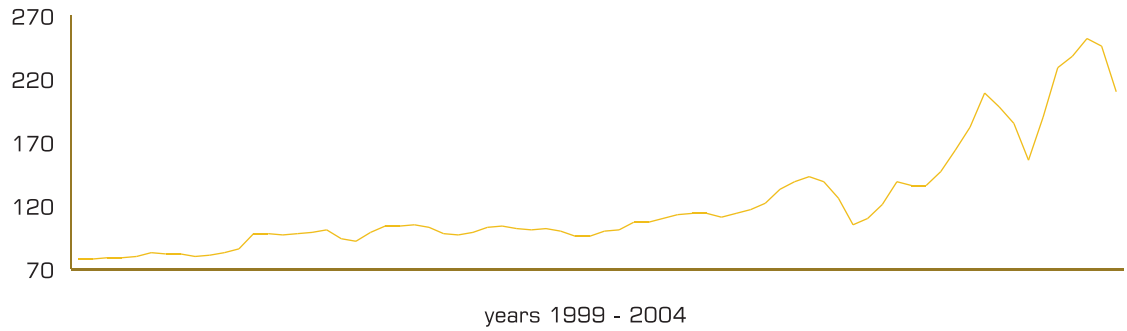
The scrap market in 2004 continued to be driven by very strong international demand for scrap particularly from China and the Far East. The European Union's direct exports to China and the Far East did not grow enormously but prices in Europe were influenced by the strong conditions on the steel market worldwide. Adding to the upward pressure on prices was the continued restrictions on supplies from major scrap exporting countries – Russia and the Ukraine – whose export taxes and levies continue to have a distorting effect on world markets. The renewal of the bilateral agreements between the EU and Russia and the Ukraine, negotiations for which were concluded in 2004, reflect that fact, with the cuts in quotas, which were imposed by the EU in response to the scrap export restrictions, being carried forward to the new agreements.

Scrap: EU Consumption (million tonnes)
Source: Eurostat and EUROFER



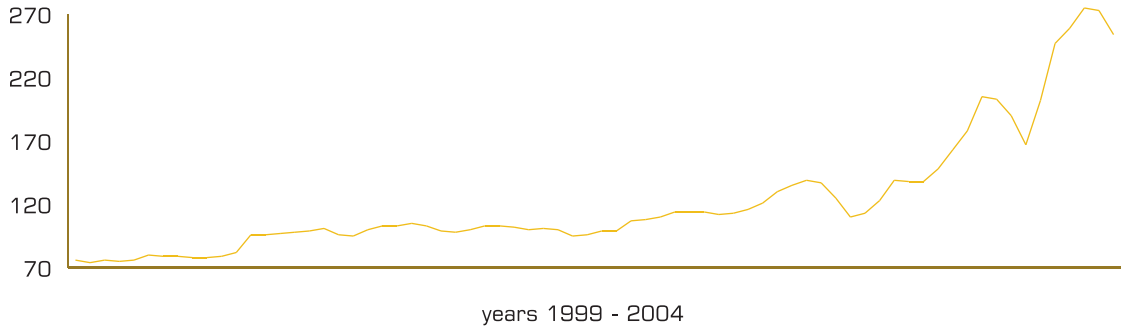
Scrap - Demolition Quality: Price EU Market (€/t)

Source: EUROFER



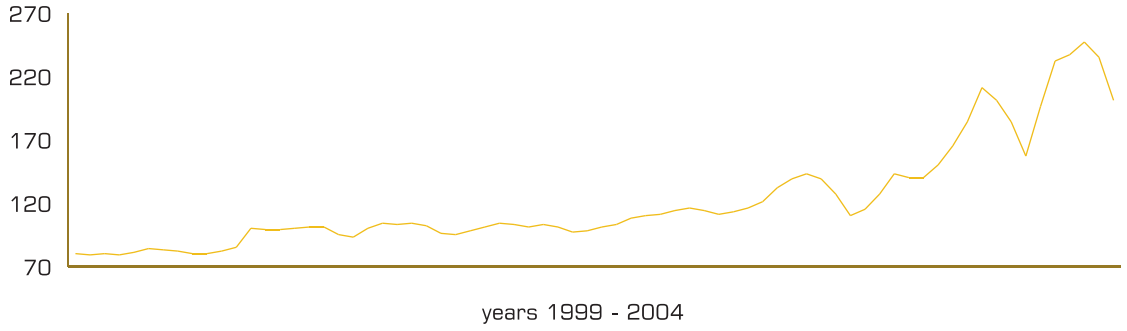
Scrap - New Arisings: Price EU Market (€/t)

Source: EUROFER



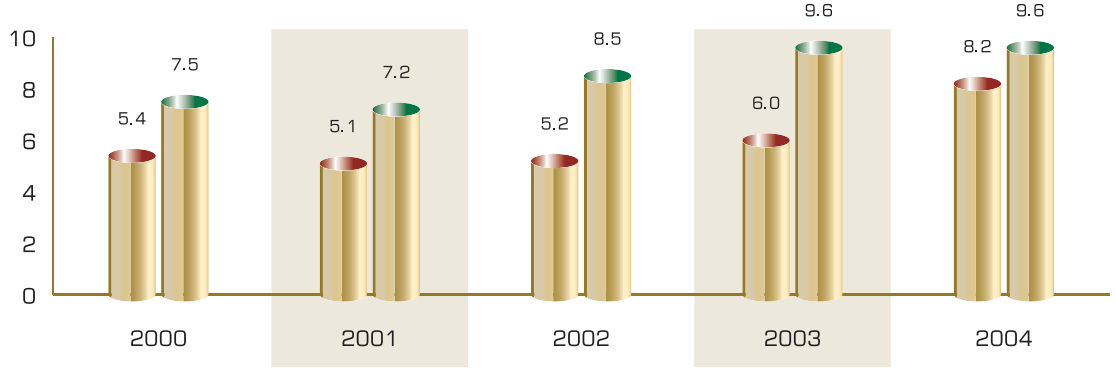
Scrap - Shredded: Price EU Market (€/t)

Source: EUROFER



Scrap: Imports and Exports (million tonnes)

Source: Comext - Eurostat



Technology and environment

Research

EU Framework Programme (FP)

The 7th Framework Programme will cover the period 2007-2013.

In this context, the European Commission published in June 2004 a Communication on "Science and technology, the key to Europe's future - Guidelines for future European Union policy to support research".

EUROFER responded to the European Commission in order to enable a consideration of the steel industry by setting the appropriate priorities. This 7th FP is of a great importance for the financing of the ambitious objectives of the European Steel Technology Platform (ESTEP) and its related Strategic Research Agenda (see below).

More details can be found at:
http://www.eurofer.org/research/09-7thFP.pdf

EU Research Fund for Coal and Steel (RFCS)

In 2004, a total number of 173 research proposals were submitted to the European Commission to be selected and financed under the EU Research Fund for Coal and Steel. Less than 30% of the submitted proposals were finally financed due to the limited budget.

The European Steel Technology Platform (ESTEP)

The European Steel Technology Platform (ESTEP) was officially launched on March 12, 2004.

The European steel industry exploits the most modern and efficient facilities available today. This leadership has been achieved after a long process of restructuring and consolidation and now, facing up to globalisation, it is the industry's ambition to maintain this position through the implementation of a sustainable development policy that will meet the needs of society while remaining competitive.

RTD (Research Technology and Development) Steel Projects agreed by the European Commission under RFCS in 2004 - 2005
RTD projects were submitted in September 2004 and approved in January 2005
Source: US ITC

Priority Areas	Research Project Description	N° of Projects
Steelmaking and finishing techniques	Ore agglomeration and iron making	2
	Steelmaking process	5
	Casting, reheating and direct rolling	7
	Hot and cold rolling	6
	Finishing and coating	4
	Physical metallurgy and design of new generic steel grades	7
Products	Steel products and applications for automobiles, packaging and home applications	3
	Steel products and applications for building, construction and industry	8
Others	Factory wide control, social and environmental issues	6
TOTAL		**48**

The Platform, operating within the European research framework, is expected to constitute a powerful tool to gather the skills and competence necessary to achieve the ambition of the European steel industry. It will also strengthen and broaden the existing European steel research network.

Its Strategic Research agenda (SRA), which was approved by the Steering Committee of ESTEP on December 15 2004, offers a global vision on the innovation and R&D initiatives which will lead to the achievement of the objectives identified here above.

The SRA recommends programmes with a significant societal impact:

- Safe, clean, cost effective and low capital intensive technologies
- Rational use of energy resources and residues management
- Appealing steel solutions for end users.

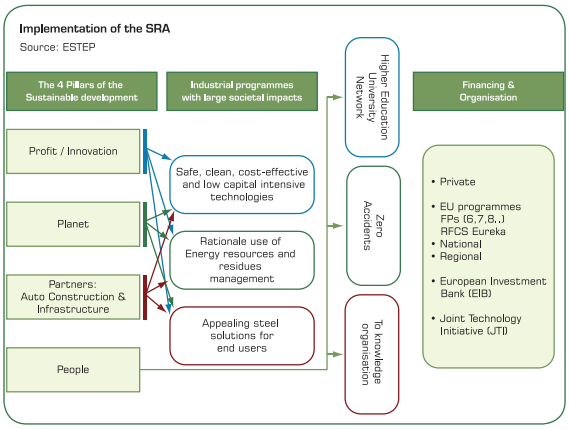
These programmes will play a major role in boosting competitiveness, economic growth and the related impact on employment in Europe by the identification of the corresponding R&D themes. Protecting the environment, increasing energy efficiency and security and safety are the objectives to be addressed. The aspect of human resources has also been taken in consideration. Qualified people must find an attractive and secure job to help in meeting the ambitions of the steel sector.

The European steel industry has already measured up to the challenge of reducing CO2 emissions by creating a consortium of industries and research organisations that has taken up the mission of developing breakthrough processes: the ULCOS (Ultra Low CO2 Steelmaking) consortium.

ESTEP will further integrate and broaden the scope of the European RTD partnership.

As regards implementation of the SRA, sources of both private and public funding will be necessary to meet the ambitious objectives of the European steel sector. The existing EU programmes (Framework, RFCS, Eureka, etc.) as well as the national and regional programmes must be focussed.

The Steering Committee of ESTEP will identify by July 2005 large projects to be submitted to the different European instruments such as FP 7.



More details can be found at:
http://www.eurofer.org/research/steeltechplat.htm

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.

In 2004 EUROFER continued its participation in forums and working groups organised by the EC to exchange information (Information Exchange Forum or IEF) in order to develop Best Available Techniques (BAT) Reference Documents (BREFs).

The last relevant vertical BREFs for the steel industry are the ones for Metal Surface Treatment and Surface Treatments using solvents. The last working drafts were released in April and May 2004 and the publication of both final drafts, for final adoption by the IEF, is expected in 2005.

Besides the sector specific BREFs, EUROFER continued to be involved with BREFs on horizontal and cross-sectoral issues, such as economic and cross media effects, as well as emissions from storage of bulk or dangerous materials. Those last two BREFs were finally endorsed by IEF in December 2004.

The BREF on storage of bulk and dangerous materials covers the storage, transfer and handling techniques for solids, liquids and liquefied gases. A high level of consensus has been reached within the Technical Working Group with no split views on the BAT conclusions on solids and five split views on liquids and liquefied gases.

The BREF on Economic and Cross-Media (ECM) includes the development of methodologies on costing, on cost effectiveness for some pollutants and on economic viability in an industry sector. The cross-media assessment and the costing methodologies will help to structure the discussions and resolve "conflicts" on BAT conclusions.

The document shall not interfere with the decisions of the competent authorities regarding the consideration of local factors as provided in Article 9(4) of the IPPC directive which indeed makes no provision for a test of economic viability at local level.

The European Integrated Pollution Prevention and Control Bureau (EIPPCB) and the European Commission had already presented their views on how they intend to proceed with the revision of the existing BREFs. They called for the comments of the IEF members on their expectations for the review process, the scope of the revision and the procedures to be established.

EUROFER supported, in principle, the proposals that were made and underlined that every review should focus on the new information which is available since the finalisation of the earlier version, and that this new information should be linked to technical advances and changes in scientific knowledge and understanding.

As the IPPC directive should be fully implemented by October 2007, EUROFER made it clear that any review of the Iron & Steel BREF undertaken before that date should not have any effect on the existing permitting processes.

Climate Change

Greenhouse Gas Emission Trading Scheme

The European Union has decided to introduce an emissions trading scheme to curb the European industry's emissions, starting with a pilot phase running from 2005 to 2007, followed by a second phase from 2008-2012 (the "Emissions Trading Directive" – ETD - was adopted in October 2003 – Directive 2003/87/EC) . In its first phase, the EU emissions trading scheme (EU ETS) will cover carbon dioxide (CO2) emissions from power generation, oil refineries, coke ovens, iron and steel, cement, lime, glass, ceramics, and pulp and paper, as well as from all combustion plants with a rated thermal input of more than 20MW of capacity. In the whole EU, the system covers roughly 12 000 installations.

Trading in emission allowances is based on the setting of a cap on total emissions for one year from the installations in a particular region included in the scheme. A certain number of tradable emission allowances are allocated to each installation covered by the scheme. One such allowance is defined as the right to emit one tonne of CO2. Only installations that have obtained special permits are actually entitled to emit CO2. In aggregate, these allowances correspond to the cap on total emissions. The installations included in the EU ETS must then, at a defined date, be able to submit allowances corresponding to the respective installations' actual emissions. Operators with high costs of reducing emissions will purchase emission allowances, which are offered on a market by operators with low costs of emission reduction.

The main objective of the allocation process in an ETS should be to create a level playing field for all sources that must now control their emissions and direct investment and management toward less CO2-intensive production processes, while

remaining competitive with the rest of the world. It is therefore important to provide some degree of certainty to investors – in terms of total allowances allocated to industry in the medium term, future structure of the scheme, etc. – to avoid discouraging investments in Europe and to create a robust and reliable emissions trading scheme for industrial sources looking for the least cost solution to comply with CO2 emission objectives. The lack of visibility with respect to medium-term objectives post-2012 could become a problem as industry decides on the location of new and major production units, and also on the nature of its production processes.

Impact on competitiveness

In 2004 EUROFER has been involved in some studies aiming at assessing the impact of the EU ETS on the competitiveness of our industry, like the one led by the International Energy Agency. One of the main conclusions of the CEPs (Centre for European Policy Studies) study is that the EU ETS will negatively influence the competitiveness of energy-intensive companies, regardless of whether the companies are covered by the scheme or not, due to higher power prices arising from the scheme.

The EU ETS will have an impact on the competitiveness of the European iron and steel industry. This impact will come from higher power prices on the one hand and from increased costs from process emissions that cannot be passed on (prices being set on the international commodities markets) on the other hand. The EU steel industry may therefore suffer a competitive disadvantage owing to the fact that competitors outside the EU may not be subject to the same constraint.

Details can be found at the following addresses:
http://www.eurofer.org/positionpaper/compet/competitiveness_et.htm

http://www.eurofer.org/positionpaper/compet/InsertNov04.pdf

http://www.eurofer.org/positionpaper/compet/competitiveness_et.htm#competsteelind

Impact on energy prices

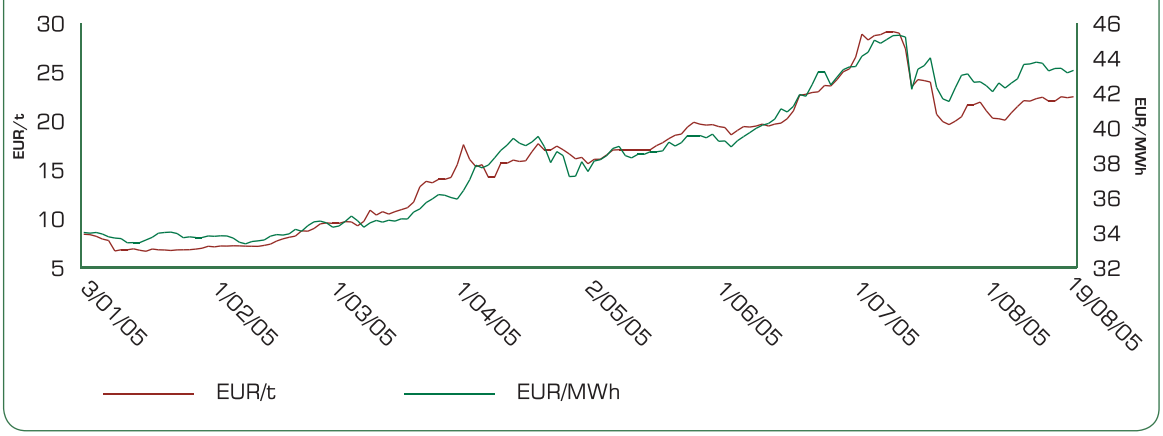
Deregulation has not brought true opening of the electricity market. EU ETS may therefore serve as a pretext for further increases in electricity prices. In the absence of real competition in the European power market, power companies will seek to charge the cost of allowances within the EU ETS, whether or not they have to acquire extra allowances in order to meet power demand, and regardless of the production source of the electricity.

According to our first estimation, if the power companies decide to pass on the full opportunity costs, the impact of increased electricity prices on the EU 15 steel industry could be around 600 M€/year!

Details can be found at the following address:

The correlation between ETS and EEX electricity Cal 06

Source: StoraEnso



http://www.eurofer.org/positionpaper/compet/CompElectprices-Nov04.pdf

Conclusions

The present EU Emission Trading Scheme is characterised by:

- A distortion of competition between trading sectors and non-trading sectors and even within the trading sectors themselves;
- A lack of an EU-wide harmonised approach, which is particularly detrimental to transnational companies;
- Negative impact on the competitiveness of energy-intensive industries due to higher power prices arising from the scheme.

For these reasons EUROFER urged the European Commission to review the present scheme before entering into the second phase in 2008.

Future EU climate change policy (post Kyoto)

The appropriate participation of all sectors to combat climate change is essential!

Any future regime should be based on the "bottom up" approach that takes into account the investment cycle and the timeframe of new technological innovations. Contributions to the reduction of emissions must therefore flow from technological reduction potentials and economic viability.

Major improvements in reducing greenhouse gas emissions cannot be expected with current technologies. Therefore, to make meaningful progress in the reduction of CO2 emissions, a new approach and the development of breakthrough technologies are required. However, given the technological challenges and assuming solutions can be found, industrial implementation cannot be expected for a long time (beyond 2020).

An EU steel industry initiative has led to the creation of the Ultra Low CO2 Steel Making (ULCOS) study group, which submitted a proposal for research funding in this area to the European Commission, who accepted it.

In a long-term climate change policy, every element should be designed as an opportunity to combine efficiency improvement and business growth. The policy should not lead to plant closures or reduction of capacity but to a reduction of CO2 emissions. Real incentives should be developed to produce steel with lower CO2 emissions per unit.

The right balance between all instruments should be maintained in any new regime. Industry initiatives and market based instruments under fair conditions as well as regulatory measures should be envisaged and discussed beforehand with industry.

A thorough business impact study with regard all aspects of the EU ETS has not yet been fully conducted and experience with the present scheme is not encouraging.

Therefore, the conclusion of the Commission in its communication to the European Council, that in the EU post-2012 strategy the continued use of market-based instruments, such as the EU ETS, should be included, is far too premature.

All options should be kept open and any instrument should be global and meet the following criteria:

- Allow any efficient installation to grow
- Avoid distortion of competition on a global basis
- Take into account economic and technological potential to reduce GHG within a sector.
- Promote cost effective reductions

Details can be found at the following address: http://www.eurofer.org/positionpaper/compet/PostKyoto-29October2004.pdf

Air Quality

Fourth Air Quality Daughter Directive

The fourth daughter directive to the Air Quality

Framework directive relating to Arsenic, Cadmium, Mercury, Nickel and PAH was adopted in the first reading on December 15 2004 (Directive 2004/107/EC).

The directive is of significant importance to the steel industry mainly due to its establishment of target values for Nickel (20 ng/m3) and PAH (1 ng/m3) in ambient air to be met everywhere. EUROFER's involvement and contribution to the process during the development of the proposal and the activities in the European Parliament and Council has been substantial.

EUROFER is pleased with the outcome that will result in an improved European Air Quality without jeopardizing the future of the European steel industry.

Thematic Strategy on Air Pollution

The Thematic Strategy on Air Pollution, under the Sixth Environmental Action Programme, is being developed under the CAFE (Clean Air for Europe) programme. The programme was launched in March 2001 and is now drawing to a close as the Thematic Strategy is to be presented in July 2005. Its aim has been to develop a long-term, strategic and integrated policy advice that would avoid significant negative effects of air pollution on human health and the environment. The strategy will outline the environmental objectives for air quality and measures to be taken to achieve these objectives.

EUROFER has supported the CAFE process from the start and appreciates the opportunity to contribute in the CAFE Steering Group. However, there is real concern that important aspects of the CAFE work programme have not been completed in time to be taken into account for the thematic strategy.

Key elements still missing at this stage include:

- modelling/analysis to further define recently proposed approaches to setting EU air quality ambition levels/limits and assessment of their environmental and economic impacts;
- cost-effectiveness and technical feasibility evaluation of policy measures; and
- evaluation of uncertainties, especially those linked to science gaps.

EUROFER believes that these aspects are critical to improving EU air quality in a cost-effective manner, avoiding unnecessary investments, maintaining European competitiveness, and gathering the support required to allow rapid and successful completion of the regulatory process. EUROFER has, in close cooperation with UNICE, therefore asked the European Commission to address these concerns and allow key aspects of the CAFE work programme to be completed and taken into account before binding air quality ambition levels, policy measures and time horizons are set.

Revision of the First Daughter Directive

Following the Thematic Strategy on Air Pollution, but to be presented at the same time, the European Commission will make a proposal for the revision of the first air quality daughter directive relating to limit values for Nitrous oxides, Sulphur dioxide, Lead and Particulate Matter (PM10) in ambient air.

The European Commission has announced that due to investigated health effects they will propose a change of the current metric, PM10, to smaller particles, PM2.5. The proposal is likely to include:

- Maintaining the current limit value for PM10
- A uniform concentration cap for PM2.5 to be applied everywhere
- A percentage reduction for urban areas based on the actual average urban background concentrations.

There are still many uncertainties as to what will be proposed and how it could affect the steel industry, but it is clear that the concentration cap is of major concern and that the reduction in urban areas will affect those steel plants located in the neighbourhood of cities.

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" [COM(03)301] as a first step towards the strategy itself. The final communication is expected in June 2005 and will be accompanied by a proposal for a revised Waste Framework Directive (WFD). The revision will most probably include a change of the scope of the directive to integrate life cycle thinking into its objectives. Additional to that, some existing definitions such as recovery and disposal will be revised. The European Commission has also indicated that a definition of recycling might be integrated in the WFD.

During 2004 the European Commission organised an Extended Impact Assessment with the purpose to assemble data and information concerning the economic, environmental and social impacts of alternative options considered by the European Commission for inclusion in the final strategy

EUROFER made an extensive contribution to the impact assessment. As a first step, EUROFER asked for the assurance of the full implementation of existing waste related legislation since this might change the scene quite drastically. The new situation should be the baseline against which to decide if further measures are necessary.

In addition EUROFER pointed out the following main principles to be considered in the future strategy;

- The distinction between municipal solid waste and specific waste from industrial production
- The distinction between waste (according to the current definition) and by-products with a market potential
- The introduction of a revised definition of waste within the Waste Framework Directive or at least clarification about at which point waste ceases to be waste
- The possibility to conserve natural resources by allowing marketing of by-products from the steel industry to an adequate extent by avoiding unnecessary constraints or discrimination.
- A strong interaction with the planned strategy on resources.

Definition of Recycling

In the context of the revision of the WFD, the European Commission sent a questionnaire to the member states and held a special meeting for other stakeholders. One of the key points for the European steel industry was the question about including a recycling definition in the WFD. For harmonization reasons EUROFER strongly supports the introduction of such a definition in the WFD. EUROFER argues for a material based definition such that a material remains available to undergo a new cycle giving birth to new material.

Definition of Waste

In relation to the revision of the WFD, the European Commission is also planning to establish criteria for when a waste ceases to be a waste. The criteria will be based on the quality of the waste and linked to its final use. The criteria will include parameters such as: low environmental risk, potential environmental benefit and a solid market for the recycled products. Further on, the waste should meet market standards to be approved as a non-waste. For the moment, studies are being run by the European Commission to identify suitable wastes. Steel scrap is one waste stream recognised by the European Commission that could be suitable for establishing such criteria in the future.

Persistent Organic Pollutants (POPs) in waste

In April 2004 an EU regulation regarding so called POPs entered into force (Regulation 850/2004/EC). According to the regulation, POPs-containing waste exceeding a certain limit value must be disposed of or recovered in a way that ensures the destruction of the POPs. This regulation applies to all wastes when exceeding certain limit values not yet established by the European Com-

mission. The values are to be set before December 2005 and the European Commission has hired a consultant who will suggest values based on a survey that was carried out during 2004. EUROFER is concerned about the regulation due to the fact that wastes from gas treatment from steel production containing dangerous substances are subject to the requirements of a special annex of the regulation. If these wastes exceed the limit values to be set, they must be permanently stored since the metallurgical processes used for metal extraction are not included as approved operations, even though those processes do destroy POPs. EUROFER argues for the inclusion of the metallurgical processes for metal extraction in the annex in order to secure future resource conservation and efficient treatment of the wastes.

Products

Integrated Product Policy (IPP)

Since the publication of the European Commission communication on Integrated Product Policy (IPP) in June 2003 [COM(03)302], EUROFER has closely followed the various activities related to its implementation. In August 2004, EUROFER launched its own IPP project that aims at developing methodologies for Life Cycle Assessments and Eco-design. The first phase of the project, that included identifying the steel industry role in IPP, what has been done so far and the opportunities for the future, was finalized in the first half of 2005.

Restriction of Hazardous Substances in Electric and Electronic Equipment

The European Commission has been working with member states following the comitology procedures to find a wording to be included in the above directive (Directive 2002/95/EC) allowing trace levels of the banned hazardous substances in materials used for electric and electronic equipment. The adoption of the text has been delayed due to procedural errors and will be adopted in July 2005 at the earliest.

EUROFER has participated actively in the process and is supportive of the wording proposed by the European Commission allowing a maximum concentration value of 0.1% by weight in homogeneous materials for lead, mercury, hexavalent chromium and of 0.01% by weight in homogeneous materials for cadmium to be tolerated. The proposed levels are consistent with the values in the end of life vehicles directive (Directive 2000/53/EC).

Soils

In 2003, the European Commission outlined the first steps in a communication on soils [COM(02)179]. EUROFER participated in the European Commission working groups in the fields of contamination, monitoring and research. During 2004, the European Commission has indicated that the drafting of the Soil Strategy will need more time and will depend on the priorities of the incoming new College of Commissioners. The European Commission has finally decided to propose, in parallel to this “Thematic Strategy”, a Framework Directive on soil protection dealing with soil condition monitoring, soil erosion, decline in organic matter, and contamination issues. This package is due to be presented by end of 2005 and will also include a European Commission-conducted extended impact assessment.

More details can be found at http://www.eurofer.org/positionpaper/environment/soil.htm.

Zinc Risk Assessment

In March 2004, a revised Risk Assessment Report (RAR) was discussed at a meeting of EU Member States’ technical experts. Industry strongly opposed some of the conclusions drawn in the report and some questions were left open to be solved before the final draft. The final draft RAR was completed in December 2004 but none of the comments made by industry was taken into consideration. Early in 2005, the European Commission and the European Chemicals Bureau worked together with industry in order to try to finally solve the remaining technical problems in the report.

Even though the RAR is not finalized, the Dutch

authorities decided to start the next step of the Risk Assessment procedure, the Risk Reduction Strategy (RRS), in November 2004. This phase aims at identifying the actions that need to be taken to reduce the risks connected to production or use of zinc. In this context, industry opposes discussion of regional risk scenarios and, more specifically, risk reduction measures concerning the use phase. A consultant has been hired by The Netherlands to perform the RRS with a mandate to focus on the local scenarios first. In this phase, updating of local/sectorial scenarios is possible and EUROFER has provided the consultant with new and appropriate information.

The work within the RRS includes data gathering and qualitative assessment of relevant options followed by quantitative assessment of selected options. The final RRS is expected in December 2005.

Thematic Strategy on the Sustainable Use of Natural Resources

In 2003, the European Commission issued a communication to launch a debate on a "Thematic Strategy on the Sustainable Use of Resources" [COM(03)572]. 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 is to ensure that resource use does not lead to environmental degradation.

Although discussions are not focused on the steel industry, EUROFER has followed this topic closely by actively participating in the two working groups and the advisory forum formed by the European Commission. EUROFER has also had a bilateral meeting with the European Commission to discuss the decoupling already achieved by the steel industry (see graph below) and how it could be enhanced in the future. In addition, EUROFER has participated in the extended impact assessment that DG Environment launched in December 2004.

The European Commission is currently drafting the strategy that is expected to be presented in June 2005.

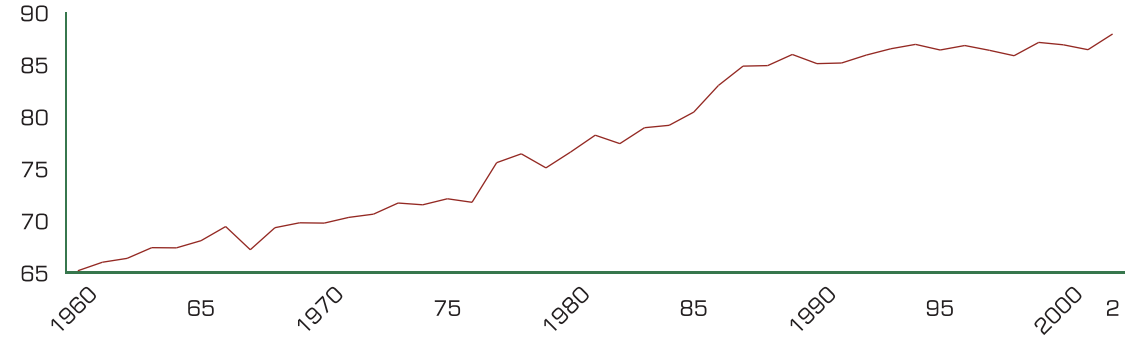
The EU "New Chemicals Policy" - REACH

The European Commission proposal for a new chemicals regulation (REACH – Registration, Evaluation and Authorisation of Chemicals) was launched in October 2003. Unfortunately, despite several attempts by EUROFER, the European Commission failed to address any of the specific concerns of the steel and metals industries. EUROFER's proposals for amending the regulation in order to make a workable REACH for the steel industry are as follows :

- Exempt wastes for recycling from the scope of REACH. They are already well controlled and managed by other EU and international waste legislation.
- Include the UN-agreed definition of metallic alloys in the regulation. Steel and other metallic alloys are special preparations with

Total Yield: Rolled steel* / Fe input**

Source: VDEH



* total rolled steel for market products including semi products for sale
** Fe of BF input + steel scrap

their own intrinsic properties and need to be evaluated accordingly.

- Exempt minerals and ores from the obligation to register. To ensure fair competition between different classes of material since the raw materials (i.e. coal, gas and crude oil) for the organic chemicals sector are exempted.
- Exempt the gases produced in coke ovens and integrated steel mills from the obligation to register. They are used like natural gas, oil and coal (all exempted from REACH) to produce energy and heat and should be treated equally.

In 2004 the REACH proposal was discussed in both the European Parliament (EP) and the EU competitiveness council. EUROFER members have been active in seeking support for our proposed amendments from contacts in both the council and the EP.

The EU competitiveness council is undertaking a detailed chapter by chapter review of REACH. Proposals from member states to amend and improve the text have been added to the text as footnotes for further discussion and elaboration. Both France and Sweden have addressed the concerns of the metals industry, while Hungary and the UK jointly introduced the OSOR (One Substance One Registration) concept. As the review process progressed, Germany attempted to integrate several of these member state initiatives into a coherent approach to REACH.

In the European Parliament, the discussions on REACH were limited due to both the imminent EP elections and a dispute about which EP committee should lead the debate. The newly elected EP agreed that, by a special arrangement, the REACH proposal would be handled jointly by three committees; Environment, Industry and Internal Market.

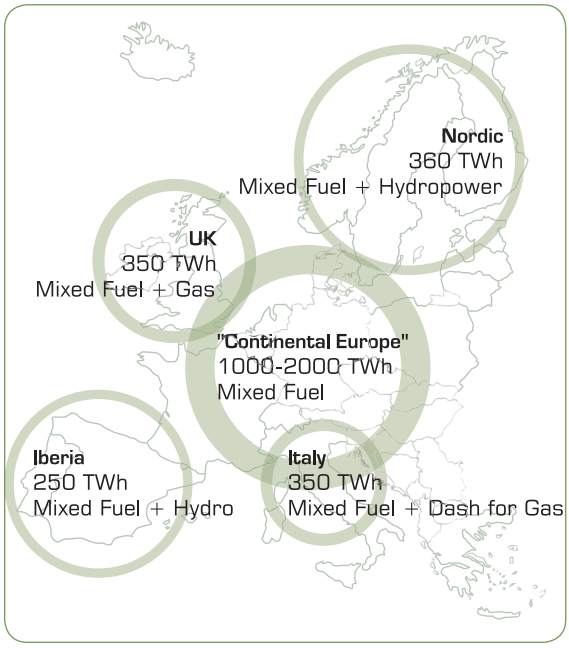
During 2004, the European Commission approached industry to undertake a joint complementary Business Impact Study (BIS) on REACH. The complementary BIS adopted a case study approach to critical substances in specific supply chains in the automotive, electronics, flexible packaging and (in)organic sectors. The (in)organic sector BIS consists of 4 case studies involving supply chains in the cement, non-ferrous metals, paper and steel industries. In the steel case study, iron ore was selected as the critical substance used in integrated steel production. The industry consortium employed the consultants KPMG to undertake the case studies, while a European Commission Working Group consisting of key stakeholders (i.e. the European Commission, industry, trade unions and the NGOs) ensured that the process was transparent and conducted in accordance with the agreed methodology. Lengthy discussions in the European Commission Working Group concerning the methodology delayed the start of the in-depth interviews between KPMG and the participating companies. Hence, the complementary BIS remained ongoing at the end of the year.

The European Commission began its REACH Implementation Programme (RIP) to develop IT software and guidance documents for member states, the proposed new chemicals agency and industry. In response to a proposal from industry, the European Commission has given its support to two separate, but related, initiatives from industry (i.e. MERAG and HERAG) that are intended to form the basis of specific technical guidance for the assessment of metals, inorganic metal compounds and alloys. The MERAG (Metals Environmental Risk Assessment Guidance) and HERAG (Health Risk Assessment Guidance) projects are developing suitable methodologies for, respectively, the environmental and health assessment of metals etc. The MERAG project started in January 2004 and will be completed in mid-2005. Although the HERAG project is not intended to start until January 2005, a preparatory workshop was held in July 2004.

Energy

Impact of Emissions Trading Scheme on Energy Prices

The EU power market is best described as being in a transitional phase and consisting of different national and regional markets characterised by different degrees of competitiveness. Generally these markets suffer from a high degree of market power concentration (see figure below). Due to the current pricing mechanism where the marginal MWh produced is fixing the price, the EU-ETS may therefore serve as a pretext for further increases in electricity prices.



The opportunity cost calculation implies that the cost of allowances – the opportunity cost - will become part of the variable costs of electricity, irrespective of the amount of allowances allocated to the power plant. The price of all allowances will be added to the marginal electricity cost. Some simulations have indicated 20-30% increases in base load wholesale prices based upon an allowance price of 10 /t of CO2. On average, this translates into an end-user price increase of approximately 10-15%.

If this happens (and the first indicators show that it is going to happen – see figure above in the Climate Change section), Power intensive industries – whether or not covered by the Emissions Trading Directive - will see their competitiveness seriously impaired. Those industries are subjected to harsh international competition as the prices of their products are generally set in the global market.

This scenario is now understood and recognised by European institutions and all stakeholders.

Possible solutions to address the issues regarding power prices and competition have been identified by several stakeholders. Each of those potential solutions has advantages and disadvantages regarding compliance costs, political feasibility, power market impacts, government intervention, workability in the short term, data issues or transaction costs, etc.

More details can be found at:
http://www.eurofer.org/positionpaper/compet/CompElectprices-Nov04.pdf

Stainless Steel Producers Group (SSPG)

Throughout 2004, the EUROFER SSPG addressed existing and proposed EU legislation that has implications for the stainless steel industry. The internal communications network, developed during 2003, was further strengthened by a health and environment seminar held in Krefeld, Germany, in October 2004. The meeting was attended by delegates mainly from the internal communications network, but was also attended by other interested parties. As in previous years, SSPG staff and members were actively involved in co-ordinated lobbying activities at both the EU institution and national levels.

During the year, SSPG staff continued to devote a considerable proportion of their time to activities related to the EU “New Chemicals Policy” (REACH). However, because of the significance of REACH to the iron and steel industry as a whole, these activities are reported as a separate item in this section of the annual report. Other activi-

ties undertaken by SSPG staff during 2004 are reported below.

Nickel Directive (94/27/EC)

The "Nickel" or "Jewellery" Directive restricts the use of nickel and nickel-containing materials in close and prolonged contact with the skin to a maximum nickel release level; and a further restriction of a maximum nickel content of 0.05% applies to piercing post assemblies, which effectively bans the use of stainless steels from these applications. After a lengthy lobbying campaign by the jewellery, nickel and stainless steel industries, the European Commission engaged LGC Limited (LGC) to conduct tests on a number of stainless steels exposed to blood, sweat and urine to determine whether nickel release (rather than nickel content) is a more appropriate criterion for piercing posts.

The LGC study report supported the view that nickel release is the more appropriate criterion for determining the selection of materials for piercing post assemblies and proposed a maximum nickel release level for such applications. Subsequently, the European Commission Committee for Science, Toxicology, Ecotoxicology and Environment (CSTEE) supported its findings. In July 2004, EU member states voted in favour of the European Commission's proposal to change the criterion, for piercing post assemblies, from nickel content to nickel release, at a rate of less than 0.2µg/cm2/week, measured in accordance with EN 1811:1999. The ensuing legal amendment to Directive 94/27/EC (Commission Directive 2004/96/EC) was published in September 2004. Thus, appropriate grades of stainless steel may now be legally used in the EU for the manufacture of piercing post assemblies.

Construction Products in Contact with Drinking Water (CPDW)

Currently, each EU member state has its own distinct and different criteria for the approval of CPDW. The European Commission has therefore proposed a European Acceptance Scheme (EAS) in order to promote a European-wide open market for CPDW as well as ensuring a high level of health protection for EU consumers through the supply of safe drinking water. The EAS will specify a range of tests appropriate to each material to determine their suitability for drinking water applications, and the European Commission has given CEN (the European standards organisation) a mandate to develop these test methods. Metallic materials suitable for drinking water contact applications will be included in composition lists within the EAS. The SSPG has formed a drinking water working group to address the selection of grades for testing and their inclusion in the EAS composition lists. European Commission progress on the EAS has been slow and completion of the project is not envisaged before 2007.

Risk Assessment of Metallic and Trivalent Chromium

The International Chromium Development Association (ICDA) has begun voluntary assessments of the health and environmental risks associated with metallic chromium and trivalent chromium compounds. The health risk assessment is being conducted by the Finnish Institute for Occupational Health and the SSPG consultant toxicologist is a member of the ICDA steering committtee for this project. A steering committtee, co-chaired by the SSPG consultant toxicologist, has also been formed to manage the environmental risk assessment of metallic chromium and trivalent chromium compounds. One of its first tasks has been to identify and retain suitable consultants to conduct this project: the Belgian consultants Euras and Ecolas were selected and a kick-off meeting was held in November 2004.

Hazard Classification of Molybdenum Trioxide

The UK government proposed to the European Commission Classification and Labelling Working Group that molybdenum trioxide should be considered for classification as a Category 3 car-

cinogen. As a commercial grade of molybdenum trioxide is used extensively in the production of stainless steel, the SSPG consultant toxicologist worked closely with the International Molybdenum Association (IMOA) to challenge this UK proposal, which is based on research work conducted on a pure form of molybdenum trioxide this is not, in fact, used in the EU.

IMOA and the SSPG undertook a test programme on pure molybdenum trioxide to gain further reliable information as well as gathering exposure data from users of all forms of molybdenum trioxide (including stainless steel producers). Following extensive discussion, and recognition that it is a borderline case, the member states decided in September 2004 that pure molybdenum trioxide is to be classified as a Category 3 carcinogen. However, the commercial grade used by the stainless steel industry was not classified at this time and discussions on this material are currently suspended.

Toxicity Potential of Stainless Steels

Work continued on the investigation of the inhalation toxicity potential of stainless steels: a programme of work designed to establish the actual toxicological properties of nickel-containing stainless steels in the face of threats that the EU carcinogenicity classification of metallic nickel may be increased and that metallic nickel powder may also be classified for respiratory toxicity. Although the International Stainless Steel Forum (ISSF) now fund this work, EUROFER SSPG staff continue to be heavily involved in the management of the project. Following preliminary studies, a more extensive study on metal release from stainless steel powders exposed to a range of artificial biological media was undertaken by the research team at the Royal Institute of Technology in Stockholm, who also studied the influence of various surface finishes on metal release from stainless steel in the massive form. Metal releases are low from all grades and all physical forms of stainless steel so far studied. The work will continue in 2005 when in vitro toxicological studies on stainless steel powder are also planned.

Life Cycle Inventory (LCI) on Stainless Steel

In 2004, prompted by the following drivers, SSPG staff prepared a proposal for consideration by the SSPG Steering Committee and the Presidents for a two-stage update of the European LCI for stainless steel.

- Since the original LCI study, based on data collected for 1997, the EU stainless steel industry has undergone certain structural changes as well as significant process developments.
- The software used is not user friendly, which has inhibited use of the data within the companies e.g. for benchmarking of specific plant data against the European average.
- Within the EU, there is an increasing interest in the use of “life cycle” data in regulatory activities (e.g. integrated product policy, eco-design of energy using products, greening of public procurement).

The approved proposal, to be undertaken in 2005, consists of a preparatory phase to review the existing data, the drivers for updating the data and software options. Subject to the final approval of the Presidents, it will culminate in a formal proposal to be put to tender for an updated LCI with data collection planned to take place in 2006.

EIMAG (European Industry Metallic Alloys Group)

After discussions about its future role, the EIMAC (European Industry Metals and Alloys Classification) Group changed its name to EIMAG (European Metallic Alloys Group) to reflect its enhanced role and revised mission statement. At the same time, it was agreed that the chairmanship of EIMAG should be shared jointly between the SSPG and a representative from BHP Billiton.

Human Resources

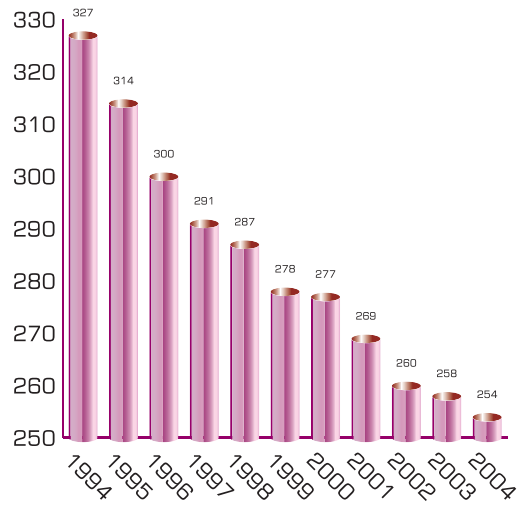
Evolution of Employment

The strong increase in prime material and transport costs in 2004 reinforced the commitment of EU steel producers to control their costs and improve their productivity. On the other hand, exceptionally strong demand led most mills to work at full capacity during most of the year. In this context, total ECSC workforce in the steel industry (EU 15) declined by more than 3,500 people, in 2004, compared with 2,300 in 2003 and 8,900 in 2002.

The continued endeavour towards excellence and improved economic results, to strengthen international competitiveness, point to the persistence, in the future, of a declining employment trend in the European steel industry. However the significantly increased numbers of natural departures in a series of countries during the next few years, indicate that this will take place at a much lower social cost. This also suggests that the main issue will switch from ensuring good social conditions for those leaving the industry, to attracting a sufficient number of qualified and motivated people to the industry.

Employees in the Iron and Steel Industry in the EU15 ('000)

Source: 1994-2002: Eurostat; After 2002:National Steel Associations



EUROFER Guarantee Fund

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 SMEs in regions affected by steel restructuring. This pilot program is implemented in 4 countries: Belgium, France, Germany, and Great Britain. The availability 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 exhausted the potential of the €2 million Guarantee Fund and permitted the disbursement of €11.635.581 in loans and equity investments. During 2004, 9 of the beneficiary SMEs defaulted, and the corresponding guarantees were called by the financial intermediaries. In the course of the same period, EUROFER paid 7 guarantees for a total amount of €155,211.

	Guarantees called	Guarantees paid
Belgium	3	3
France	1	1
Germany	0	0
Great Britain	5	3
Total Amount	€ **239 871**	€ **155 211**

Statistics

The collection of official production statistics for steel products performed by Member states in accordance with the Prodcom Regulation since January 2003 has failed to produce a timely and comprehensive feed-back on Community-wide total results. The main reasons for this unsatisfactory situation are the considerable delays in returning the monthly information from several countries as well as the restrictive disclosure rules. EUROFER believes that a major change in the disclosure rules is needed for the Prodcom statistics to become the valuable source of information that the steel industry expected them to be when they replaced the ECSC statistical system .In particular, with other industrial branch organisations, EUROFER has repeatedly argued that the ability for Eurostat to generate and publish meaningful totals per Prodcom product at the global EU level must take precedence on the individual Member states level.

The new official statistics on scrap consumption, fuel and energy consumption, investments and capacities in the steel industry, collected by Member states in accordance with the EC Regulation 84/2004, had to be reported by the end of 2004 for the reference year 2003.Feed-back information from the authorities was not available by May 2005 but the EUROFER Statistics Committee remains committed to the organisation of data exchanges amongst its members.

As in previous years, it has been a major task for EUROFER to ensure the proper running of its own voluntary system of production and commercial surveys which was set up with member companies and national associations to supplement the official system. Special attention was devoted to the extension of this voluntary system to new members in the EU accession countries. This requires a considerable effort of adaptation to new reporting standards for many entities concerned. The results obtained so far are encouraging and a significant breakthrough in this field can reasonably be expected for 2005.

With regard to international trade nomenclatures, during 2004 EUROFER prepared a new proposal for the revision of the steel industry products classification in the Harmonised System. This catalogue would be finalised in the course of 2005 and submitted to the EC Directorate-General for Taxation and the Customs Union, prior to subsequent discussion at the World Customs Union level.

Edifer

EDIFER is the programme within EUROFER which aims at providing a next generation standard for electronic information exchange between the European Steel Industry and its trading partners, using current and emerging technology solutions such as EDI, Internet and Web Services, in an interoperable, secure and consistent manner for all parties involved.

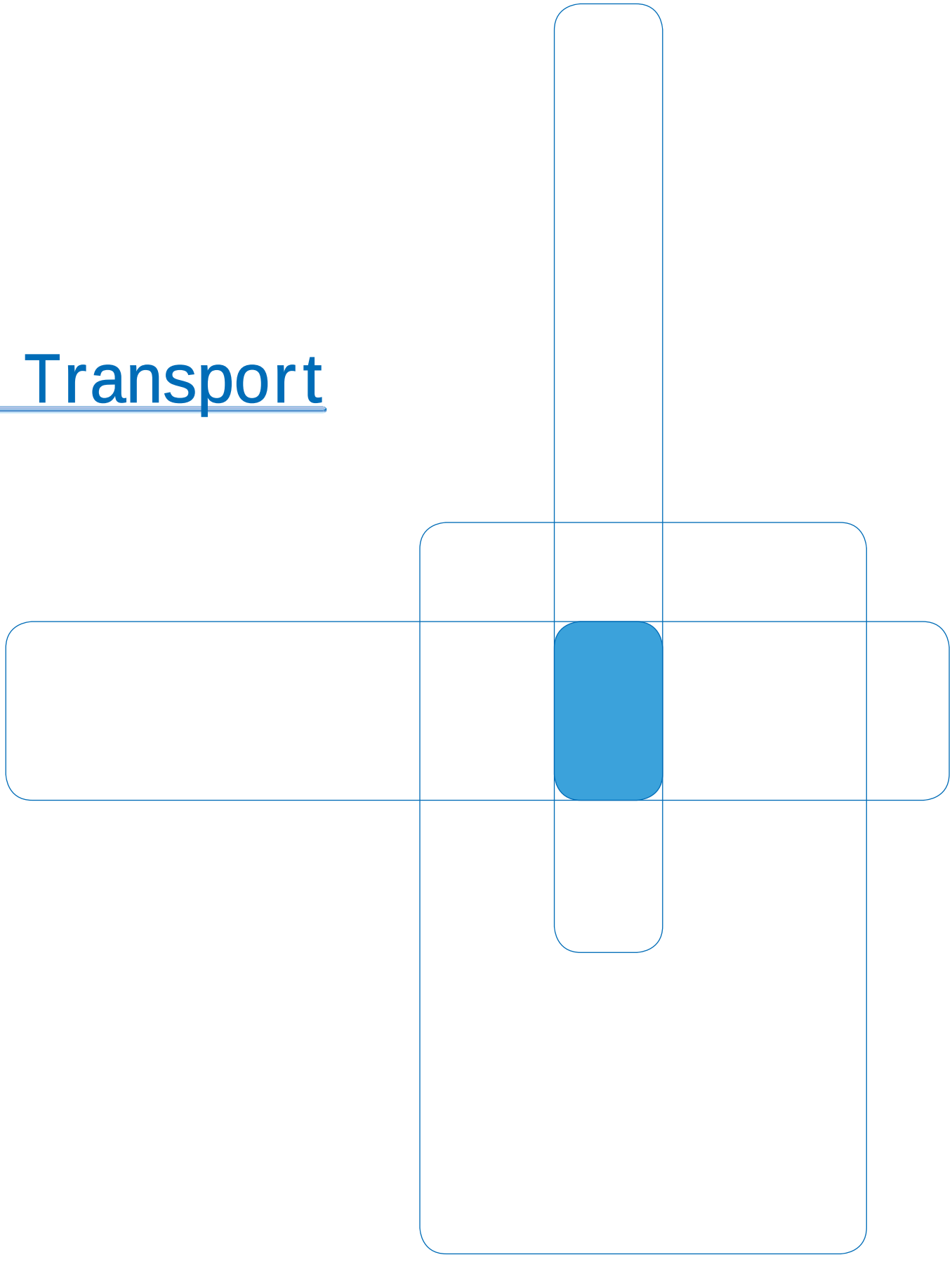
The EDIFER Committee defines the business processes for the ordering, shipping and invoicing cycles. For each of the processes, a set of transactions (business documents) has been issued in a syntax neutral content and as XML messages. This has led to the official publication during 2004 of the complete set of the European Steel Industry Exchange Language (ESIDEL) standard version 1.0. This standard, which covers all the business processes of the supply chain of steel products, contains 31 business transactions and provides for each of these transactions the XML message and the supporting implementation documents. To support the existing and future users, EDIFER will publish in 2005 the ESIDEL version 1.1 including change requests received from the users. Taking into account the present work programme of the United Nations to create a UN/CEFACT electronic business XML standard, the EDIFER Committee will promote the ESIDEL standard to UN/CEFACT in order to secure recognition as a United Nations Business Standard.

For the next two years (2005 – 2006), the following actions will be prioritised:

- to handle any future issues that arise and requests for enhancements of the ESIDEL versions 1.0 and 1.1 based on experience of existing users and interested parties;
- to continuously review and upgrade the existing EUROFER user implementation guides of EDIFACT messages;
- to be involved in the development of the world-wide UN/CEFACT standard for E-commerce, through active participation in CEN workshops and in the UN/CEFACT Forum;
- to cooperate with other sectors like steel stockholders, the automotive, chemical, electronic, white goods industries, in order to create a common set of user implementation guides of XML information exchanges covering the supply chain;
- to cooperate with the Japan Iron and Steel Federation (JISF) and the Australian steel industry in the migration of the ESIDEL standard to a UN/CEFACT Business Standard.

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

Transport



European Transport Policy

The European transport policy, in 2004, continued to follow the guidelines drawn up in the 2001 European Commission's White Paper "European transport policy for 2010: time to decide". Substantiated by the assumption that the increasing congestion of the transport network represents a serious risk to Europe's competitiveness, these guidelines aim, in particular, at revitalising alternative modes of transport to road and at de-bottlenecking the trans-European network through targeted investment. Key to the success of the requested modal shift is the revitalisation of the railways. This means:

- Nurturing competition between railway companies, incumbent as well as new undertakings, not only for international services, but also for cabotage on the national markets;
- Further harmonisation in the fields of interoperability and safety;

Promoting transport by sea and inland waterway is also a priority; this implies:

- The development of genuine motorways of the sea, requiring better connections between ports and the rail and inland waterway networks, in particular, to provide a way round bottlenecks;
- Reinforcing the position of inland waterway transport, by nature intermodal, through the creation of waterway branches and transhipment facilities.

In this context, the European Commission adopted on 3 March 2004 its third railway package containing measures to revitalise the European railways. Two of them are relevant for rail freight: a draft regulation to establish a certification system for locomotive drivers, with a view to improving interoperability between the various national networks, and another one to introduce minimum quality clauses in contracts between railway undertakings and their customers aiming to foster dearly needed advances in the rail freight quality of services, thus improving its attractiveness and competitiveness. In addition, the EU published a series of regulations, at the end of April,

- To ensure the development and improvement of safety on the Community's railways, and improved access to the market for rail transport services (Directive 2004/49/EC the Railway Safety Directive);
- To advance interoperability by progressively implementing it on the whole network, and by defining an optimal level of technical harmonisation (Directive 2004/50/EC on the interoperability of the trans-European conventional rail system);
- To create a European Agency responsible for technical matters related to railway safety and interoperability, that also would be in charge of promoting a genuine European railway culture, and that would be an essential tool of dialogue, consultation, and exchange between all the actors in the railway sector (Regulation EC 881/2004).

In addition, pursuing its drive to promote short sea shipping, the European Commission published a new Communication on this matter (Com (2004) 453) and an amended proposal for a directive on intermodal loading units aiming at increasing the competitiveness of intermodal freight transport. Finally, on 13 October, the European Commission adopted revised proposals for improved market access to port services, indeed, a follow up to its 2001 proposal that had been voted down by the European Parliament in 2003. This proposal would create a Community legal framework on access to the provision of port services market, and also, a level playing field in the competition between ports

Transport

Evolution of Steel Transport

Freight transport within Europe makes use of the three basic modes: rail, road, and water. The steel industry relies on a mix of the three of them that varies according to the country. Overall, the steel sector remains the most important user of rail freight in the European Union. However, the continuing deterioration of the service supplied has caused rail freight to lose market share to the benefit of road transportation and, to a lesser extent, to inland waterways and coastal navigation.

EUROFER regrets the sharp contrast that can be observed, between the objectives proposed by the EC White Paper "European transport Policy for 2010" and the recent developments, particularly in freight transport by rail.

Freight transport by rail

EUROFER supports the White Paper's approach and is ready to take part, actively, in the achievement of its objectives. In particular, EUROFER views very positively the fact that the different "packages" have been opening progressively the EU rail freight market to free competition, across and within the borders of Member States. Indeed, in the short run, rail freight liberalisation is likely to be the most effective way of improving the volume and quality of freight traffic on the EU railways network. Thus, it should not be delayed by the administrative barriers that, in some countries hinder private operators' efforts to start new activities on the European railways network. However, EUROFER believes that, in the longer run, significantly increased investments in infrastructures are essential to achieving the White Paper's objectives in terms of market share and quality of service. The same dynamism observed in the development of high speed passenger trains should be displayed to counter the current trend towards a further deterioration of rail freight market share. Undeniably, insufficient investment contributes to the current poor situation of rail freight service in several EU countries. This is of much concern to the European steel producers who are confronted with customary delays in routing freight trains to their final destination, mounting difficulties to ship single wagons, the progressive discontinuance of rail service to their plants, and, at the same time, strong tariff increases. Obviously, such a state of affairs encourages switching to alternative modes of transport. To address these problems, shippers should develop new approaches, in particular with respect to short lines, which would improve their integration in the rail freight transport system. In this respect, EUROFER favours the idea of creating new terminals/services to provide effective links between railway stations and industrial sites.

Freight transport by road

EUROFER stresses that the introduction of truck tolling on motorways, as in Germany, could subsequently increase the cost of freight transport by road. Indeed, transporters are likely to pass on these additional costs to loaders. For these, the toll burden would mean a serious competitive disadvantage on international markets. At the end of the day, the growing and uncoordinated introduction of road taxation increases costs in the supply chain without bringing an effective solution to road congestion by trucks. Furthermore, the European Steel industry remains firmly opposed to the principle of paying for access to roads in order to finance the development of rail or water carriage.

On the other hand, EUROFER is in favour of a draft amended regulation proposed by the European Commission to harmonise the different measures restricting the traffic of lorries in several member states, e.g. temporary driving prohibitions on Sundays or in the holiday period. EUROFER also supports the view that circulation of heavy trucks up to 44 tonnes should be accepted throughout Europe. Concerning the issue of joint responsibility between shippers and haulers, EUROFER considers that it should be discussed at EU level. It covers various domains like: accidents, illegal employ-

ment, respect of rules for driving time or driving licences, for which EU countries currently have differing approaches. Accordingly, existing national regulations do not have the same degree of restriction in all EU Countries.

Freight transport on inland waterways

In some European countries, this mode of transport represents a substantial share in the transport volume. However, many important waterways have suffered from prolonged neglect. To develop the remarkable potential of inland navigation, a significant increase in infrastructure investments is necessary. In this respect, changes in the water level of several rivers, during summer and autumn (i.e. Elbe, sections of the Danube) have caused severe problems to vessel operators. Undersized or outdated canals and locks also reduce the efficiency of waterway traffic. EUROFER supports all EU initiatives that might improve the existing infrastructures. Furthermore, the accessibility of inland waterways on Sundays and holidays should be enhanced. In addition, following the guideline 92/43/EWG, parts of important rivers have been put under conservation to protect several animal species. EUROFER would welcome the assessment of these measures' impact on the efficiency of inland navigation.

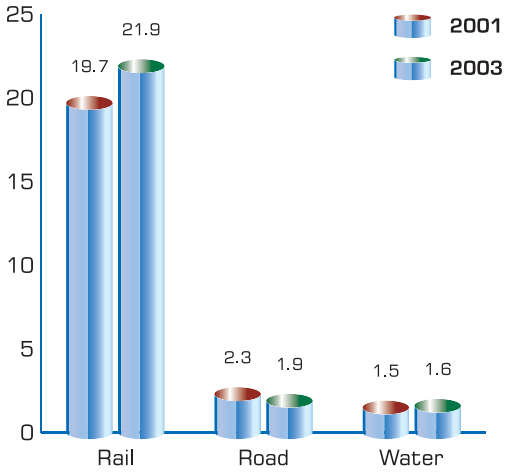
Maritime Transport

Security measures imposed by the US Administration require that the freight information arrives 24 hours before loading the cargo on the ship. EUROFER regrets that the exception request filed with the US Administration by some steel companies for their products has been rejected. EUROFER continues to back a strong reduction of the surcharges that have been imposed after the beginning of the Iraq war. EUROFER laments the EU Parliament's decision of 20th November 2003, to reject an EU regulation on free access to the market of port services. The steel industry is in favour of abolishing all monopolistic situations prevailing in EU harbour installations The European steel industry has been a dynamic actor in the growth of short sea shipping traffic observed during the last few years. It supports the European Commission's view that the development of short sea transport should represent a competitive alternative to road and rail transport on certain journeys

Finally, transport costs represent up to 15% of the production costs of the steel industry. It is clear that their evolution has the potential to impact significantly on the global competitiveness of this industry. In this respect, some aspects of the current European transport policy that increase the cost of road transport to foster a modal switch benefiting the other transport modes, raise serious concerns as they impact negatively on the competitiveness of EU companies.

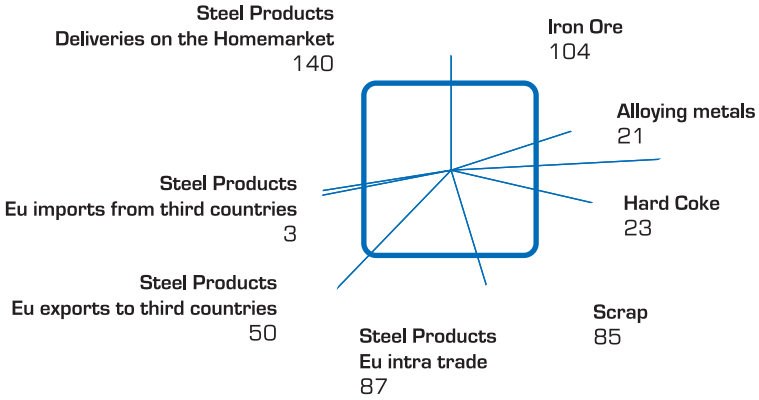
Share of Metal Products in Transport of Freight in the EU in 2003 (in %)

Source: Eurostat



Steel-related Transport in the EU in 2003 (EU 25) (million tonnes)

Source: Eurostat



Communication

Publications

The launch of the European Steel technology Platform in March 2004 (see chapter on Technology and Environment), was supported by the publication of the brochure "Steel Technology Platform, Vision 2005". On the basis of a presentation of the background and current key features of the European steel industry, the brochure details the main challenges to maintaining and improving the sustainable global competitiveness of the industry, and expresses the ambition and long term vision that will shape the ways in which the identified challenges will be addressed.

The brochure "Release of Chromium, Nickel and Iron from Stainless Steel Exposed under Atmospheric Conditions and the Environmental Interaction of These Metals" presents the results of a multidisciplinary, four year research project, combining corrosion science, ecotoxicology, and soil science, which was implemented through urban field investigation as well as parallel laboratory investigations. Increased awareness of the potential environmental effects caused by dispersion of metals from outdoor constructions into the environment motivated this research project, as reliable quantitative data on release rates of chromium, nickel, and iron from stainless steel exposed outdoors had been practically non-existent until recently, as well as information on their chemical speciation and bioavailability after release and their interaction with soil systems.

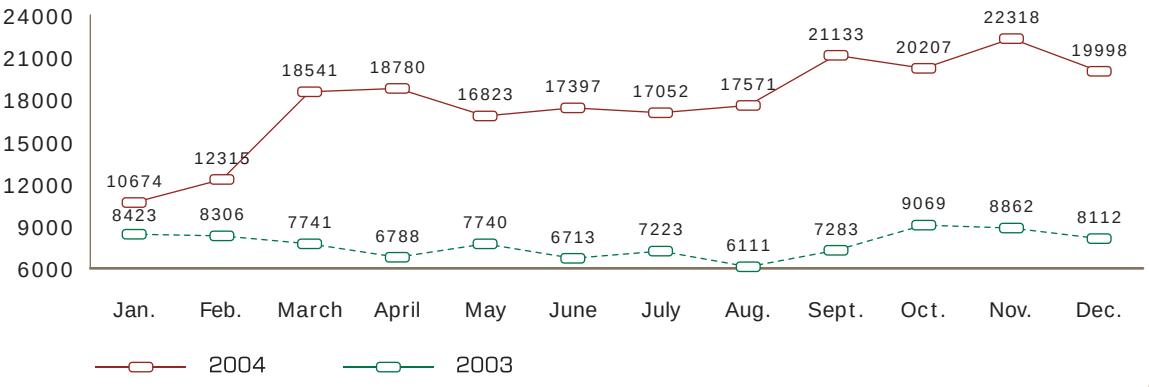
Eurofer publications can be ordered (free of charge) at:
http://www.eurofer.org/publications

EUROFER Website

The number of visitors to the EUROFER website more than doubled in 2004 with respect to 2003. The best performance was registered in November, with 22318 visitors. The average number of visitors was 17734 over the year (+104%), while it reached 20841 during the fourth quarter. The new scrap price index, introduced in the course of 2003, proved to be a big success, as it was the third ranking item in terms of frequentation, in 2004.

EUROFER Website: Visitors in 2004 compared to 2003

Source: Urchin



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Corus	http://www.corusgroup.com
DanSteel	http://www.dansteel.dk
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Halyvourgiki	http://www.halyvourgiki.com/english/
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Mittal Steel Europe	http://www.ispat.com
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Riva	http://www.rivagroup.com
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Salzgitter	http://www.salzgitter-ag.de
Sidenor	http://www.sidenor.gr
Siderurgia Nacional - Empresa de Produtos Longos SA	
SIJ - Slovenian Steel Group	http://www.sij.si
ThyssenKrupp Steel	http://www.thyssen-krupp-steel.com
Trinecké Železárny	http://www.trz.cz
U.S. Steel Kosice	http://www.usske.sk
Vitkovice Steel	http://www.vitkovice.cz
voestalpine	http://www.voestalpine.com

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
CZECH REPUBLIC	**Hutnictvi Železa**
	http://www.hz.cz

FINLAND	**Metallinjalostajat**
	http://www.teknologiateollisuus.fi/english
FRANCE	**Fédération Française de l'Acier**
	http://www.ffa.fr
	Chambre Syndicale des Producteurs d'Aciers Fins et Spéciaux
	http://www.spas.fr
GERMANY	**Wirtschaftsvereinigung Stahl**
	http://www.wvstahl.de
	Edelstahl - Vereinigung
	http://www.stahl-online.de/stahl_zentrum/edelstahl_vereinigung_e_v.htm
GREECE	**ENXE**
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	http://www.mvae.hu
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	http://www.federacciai.it
POLAND	**Hutnicza Izba Przemysłowo-Handlowa**
	http://www.hiph.com.pl
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
Erdemir - Ereğli Demir ve Çelik Fabrikalari	http://www.erdemir.com.tr
HABAŞ - Sinai ve Tibbi Gazlar Istihsal Endüstrisi	http://www.habas.com.tr
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
Mittal Steel Galati	http://www.sidex.ro
Kremikovtzi	http://www.kremikovtzi.com
Swiss Steel	http://www.swiss-steel.com

National Associations

BULGARIA	**Branch Chamber of Ferrous and Non-Ferrous Metallurgy**
ROMANIA	**Uniunea Producatorilor de Otel din Romania – UniRomSider**
TURKEY	**Demir Çelik Üreticileri Dernegi – DÇÜ**
	http://www.dcud.org.tr

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