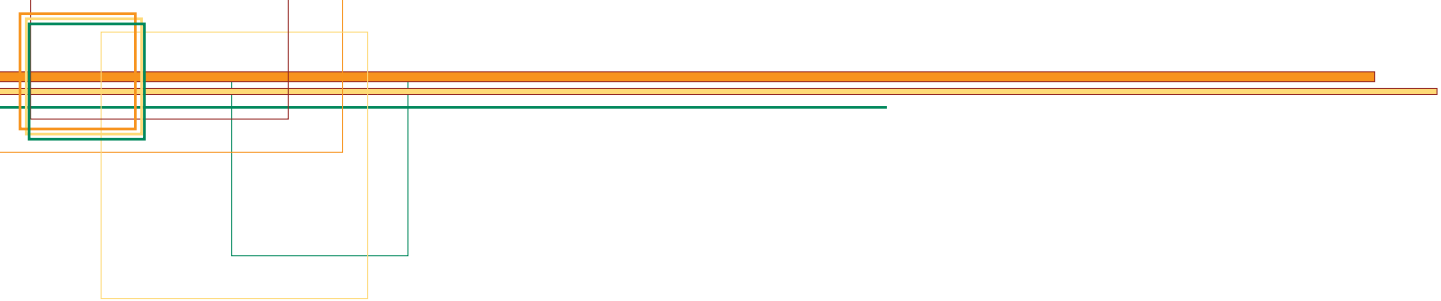
Transport of Steel in the European Union

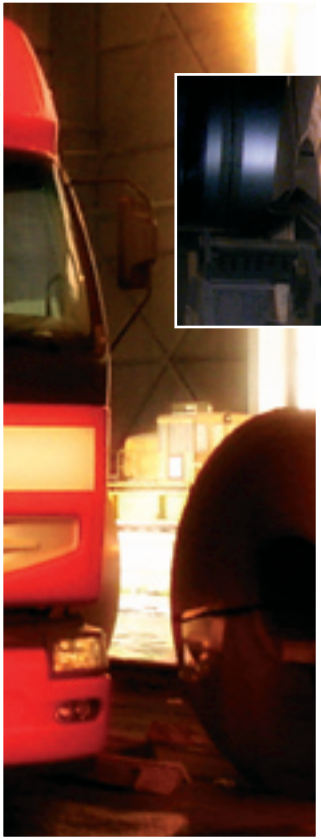
2005 Edition

STEEL on the MOVE

EUROFER
European Confederation of Iron and Steel Industries



Content



Freight transport within Europe makes use of 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 loose market share to the benefit of road transportation and, to a lesser extent, to inland waterways and coastal navigation.

Eurofer laments 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 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 employment, 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.

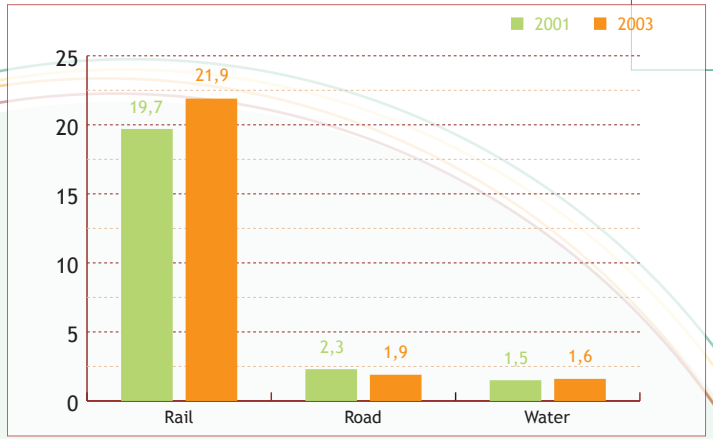
Finally, Eurofer is of the view that the development of short sea transport could be, in the future, a competitive alternative to road and rail transport on certain journeys.

Conclusion

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. European and national decision makers should bear this in mind, each time further increases in rail tariffs, diesel taxes, or road tolling are contemplated.

Key figures

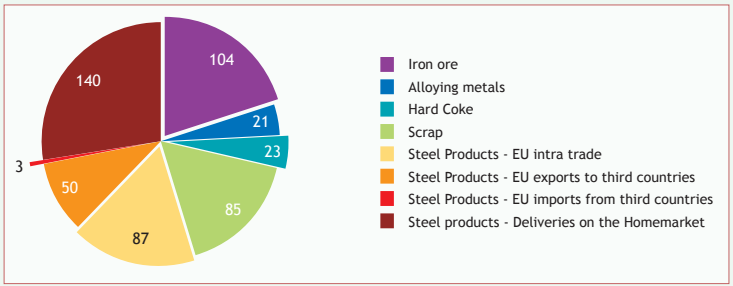
Share of metal products* in tranport of freight in the EU in 2003



Source: Eurostat

Steel-related* transport in the EU in 2003 (EU 25)

513 Millons tonnes**



Source: Eurostat

- * Metal products: pig iron and crude steel, ferro-alloy, long products, flat products, tubes, pipes, iron and steel castings and forgings, non-ferrous metals.

- * Steel-related transport concerns not only steel products (e.g. coils, bars, wire rods, etc.) but also raw materials (e.g. iron ore, scrap, etc.).

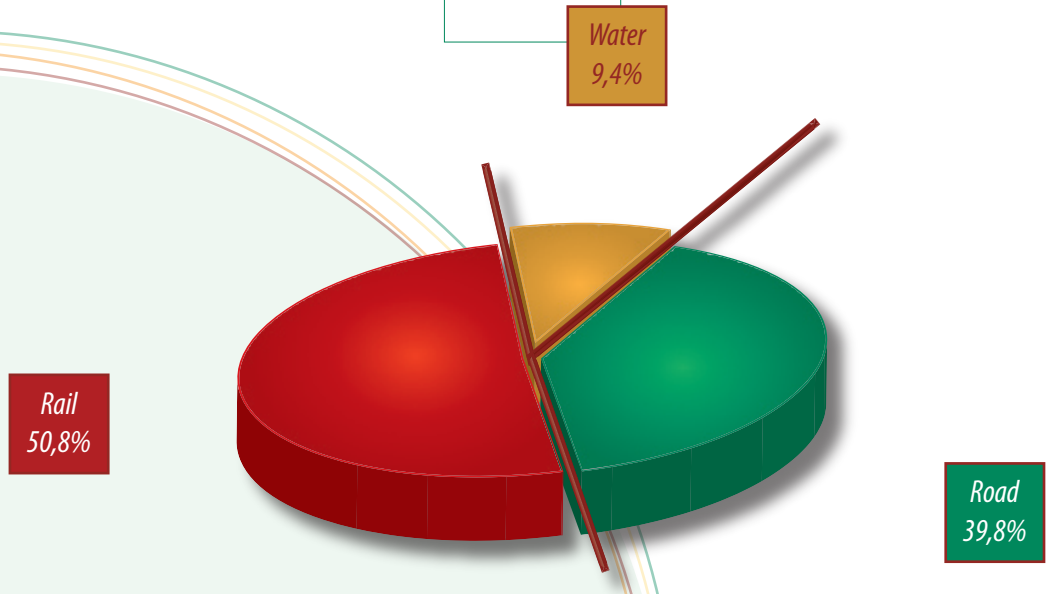
- ** Owing to internal company logistics each steel tonnage is transported five or six times. As a consequence, a total of roughly 2.5 Billions tonnes of raw materials and steel products circulate each year within Europe.

The implementation of a road-toll-system on Austrian motorways on Jan 1st, 2004, led to price-increases and therefore a comparative disadvantage for truck-shipments from and to Austria – in comparison to other countries. Also, EU enlargement to central and eastern European countries on May 1st, 2004, has caused a significant increase of traffic on Austrian roads.

The opening of the rail-market to private companies in Austria is still going on. One of the first shippers to seize this new opportunity was the Austrian steel industry, which switched inland-traffic (ingoing raw material) from the state-owned railway company to private owned ones. The biggest privately owned railway company in Austria belongs to the Austrian steel industry.

The inland waterways are very important to the Austrian steel industry (mainly for ingoing material); a large portion of the transport-volume on the Danube is steel-related. In order to strengthen this transport mode, it is vital to eliminate the bottlenecks on the Danube.

For the in bound transport of its raw material, the Austrian steel industry essentially turns to rail freight and inland-waterways while road transport is used for emergency-transports only. Outgoing materials (finished products) are transported mainly via train (50.8 %), followed by truck (39.8 %) and transports via the Danube (9.4 %).



As a reminder, in 2001, the shares were 67% (rail), 13% (road), and 20% (water). However, in 2001, the figures respresented the whole steel-related transport, whereas the figures for 2003 correspond to the modal mix for the transport of finished steel products only.

Source: Eurofer

Belgium is overdue with the transposition of the first railway package, essential for the liberalisation of railway traffic. The realisation of the transposition of this first package, by splitting up the NMBS/SNCB (national railway company) in several entities will be applied from 1st January 2005 onwards. The four entities will be as follows:

- SNCB Holding: financial holding;
- Infrabel: infrastructure administrator, i.e. responsible for the attribution of tracks;
- SNCB: exploitation that will include i.e. SNCB Cargo;
- FIF (Fonds d'Infrastructures Ferroviares): rail infrastructure funding.

Concerning the second railway package (agreed in March 2004), the transposition into Belgian law is not yet under way. The industrial rail freight users and the steel industry, in particular, are insisting on accelerating this transposition in order to respect the deadlines: 1st January 2006 liberalisation of international freight services; 1st January 2007 liberalisation of national freight services.

The discussion of the third railway package concerning the criteria for the quality of rail freight is closely followed by the Belgian industrial rail freight users.

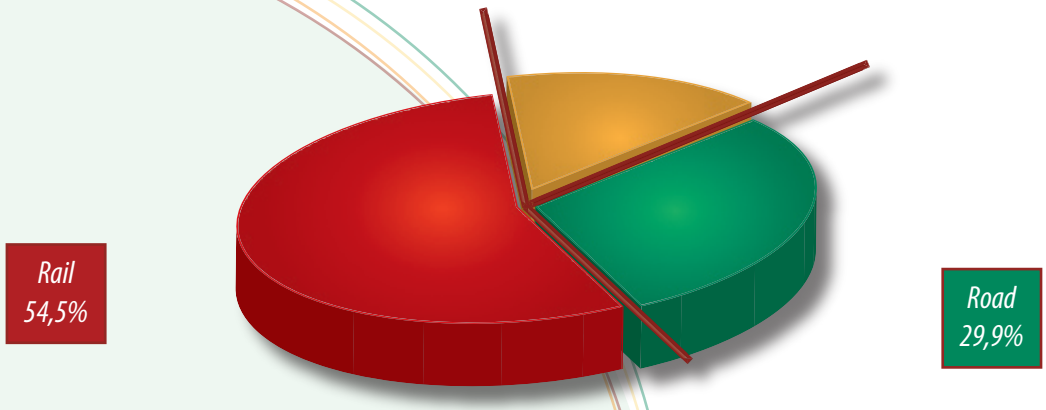
The discussions at European level about road infrastructure tariffs based on the principles of payment for "utilisation and pollution" are closely followed by Belgian stakeholders.

At the national level:

- Restitution of increased excises on professional diesel (this issue is important for its impact, directly on those who organise their own transport and indirectly on the costs of the professional transporters with whom industry is dealing).
- Co-responsibility of shippers and haulers: the new regulations could put new constraints on the shippers and haulers – Belgian industry, among which the steel industry, is worried about intra-European distortions.
- The directive concerning initial qualification and continuous training of road transporters is in the course of being transposed into Belgian law.

As far as inland waterways are concerned, the harmonisation of information services at European level on inland waterway transport is closely followed. Belgium was asked to develop propositions to optimise the current systems in order to get to a better planning and administration of traffic and transport operations. At the national Belgian level, the law of 1935 including dispositions concerning crews is presently being modified: the new dispositions will be based essentially on the Rhine regulations.

Belgian sea transport industrial users, among whom the steel industry, are considering very closely the developments in the liberalisation of sea port services that are currently being elaborated at European level. New regulations on liberalisation could, in principle, have positive effects on the tariffs/costs at the Belgian sea ports.



As a reminder, in 2001, the shares were 54.5% (rail), 29.9% (road) and 15.6% (water).

Source: Eurofer

The French steel industry (Arcelor) makes an extensive use of the different means of transport.

Road transport continues to represent an important share of total freight transport, but more environment friendly transport modes (rail or inland waterways/short sea navigation) are also developed. However, expansion of the later transport mode suffered from the low water level of the Rhine in 2003. Moreover, because of the implementation of road tolling for freight in Germany) the cost of freight transport by road has increased. The French steel maker is currently examining the possibility to implement some modal shifts in the near future.

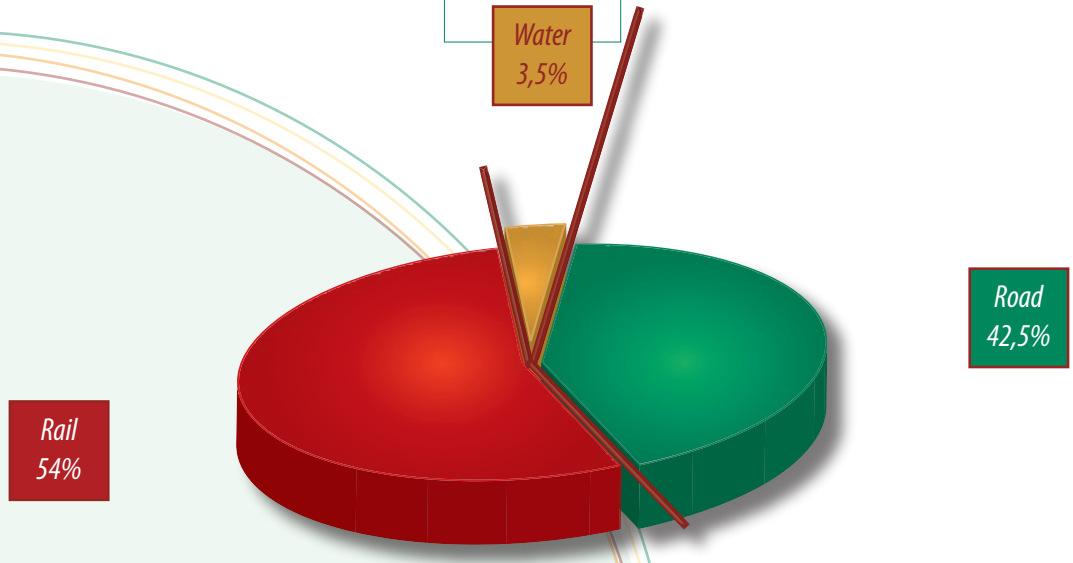
In this respect, the French steel industry welcomes the introduction of free competition in rail freight. This might allow for a future increase in the share of rail in steel transport. In the same way, the development of inland waterway traffic is envisaged very positively. Arcelor supports recent decisions to reduce navigation rights, and to dedicate new investments to infrastructure and maintenance, especially in the Seine Nord project.

Costal navigation in the Mediterrnean recorded increasing volumes.

Indeed, Inter / multi-modal transports are viewed as a positive answer to the challenge of reducing transport costs, in the future.

Deep sea transport, in 2003, was negatively affected by the Iraqi war and the impact of the US safeguard measures on steel.

Tariffs for Containers were stable over the year. Problematic modal shifts took place from break bulk to container, due to type of cargo and stuffing / stripping possibilities at loading / discharging facilities.



As a reminder, in 2001, the shares were 55.1% (rail), 41.9% (road) and 3.0% (water).

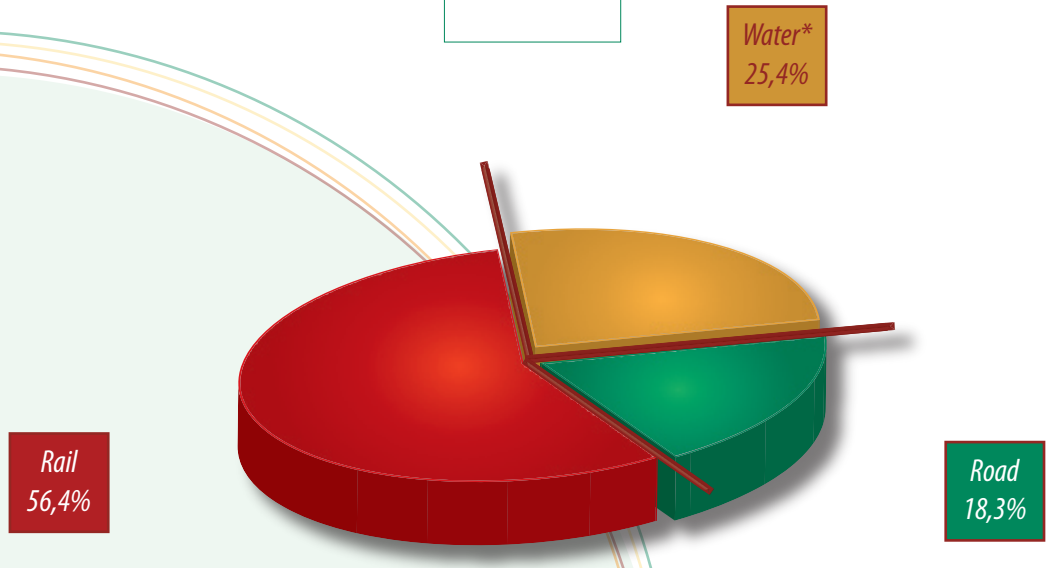
Source: Eurofer

Railways and inland navigation have been, traditionally, the most important modes of transport for the German steel industry. For those companies located along the river Rhine, inland navigation is essential to their supply of raw materials; for the others, rail freight holds the greater share. Outgoing goods are mainly transported by rail and lorry. During the last four decades, the steel industry in Germany has been able to maintain this environmentally friendly modal split.

Following fundamental transformation during the last few years, Stinnes AG, the freight transport division of Deutsche Bahn, is regarded today as one of the most modern railway transport companies in Europe. However, even though there are more than 150 railway companies operating in Germany, Stinnes AG still holds more than 90 % of the German rail freight market. The German steel industry assumes that rail freight would perform better if the market structure were less monopolistic. Therefore, strengthening competition remains of outstanding importance to the further development of the railway sector.

Inland navigation is competitive in Germany thanks to the excellent Rhine waterway and further well navigable rivers, as well as to a complex canal system following modern standards. For the steel industry, this mode of transport is of special importance, especially for the movement of raw materials. But due to lack of funds, further necessary extensions are being severely delayed or cancelled; even maintenance cannot be fully ensured any longer.

Road freight represents the smallest portion of the modal split. However, it suffers from similar problems. The German steel industry regards the investment budget for road infrastructure as being essentially too low to respond effectively to the challenge of significantly increased transport volumes on German motorways in the forthcoming years. The new German motorway toll will entail a significant cost increase for the steel logistics. However, it is very unlikely that the new toll will cause a shift of steel transport volumes from road to railway. Indeed, the service quality of the rail freight system remains too inadequate at present for such a development to take place.



* Water share: deep sea is excluded.

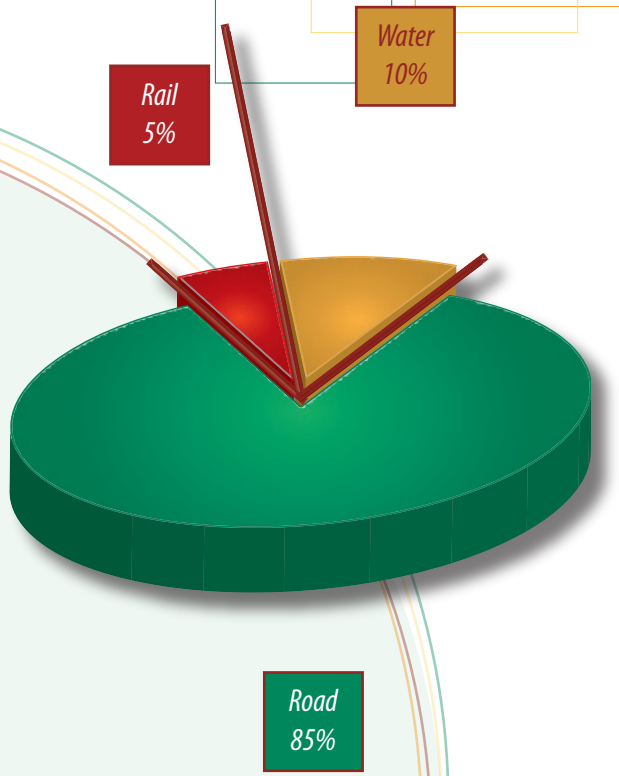
As a reminder, in 2001, the shares were 56.8% (rail), 15.3% (road) and 27.9% (water).

Source: Eurofer

The Greek railway system does not cover the whole territory and, also, needs renovation and improvement. To a great extent, there is a lack of links between the railway stations and industrial sites. In addition, the renewal of the wagons and the acquisition of closed wagons suitable for the transportation of sensitive to corrosion steel products are necessary. The development of the rail infrastructure would considerably increase rail freight volumes, which the steel industry would welcome, provided transportation cost and service are competitive with road transport.

Transport by road is used for 85 % of the shipments of steel products by Greek steel producers. A problem in this means of transportation is that the maximum load for heavy trucks is 40 tonnes (truck + trailing truck) and 38 tonnes for trailers (tractor-trailing unit), instead of the 44 tonnes applied in other E.U. countries. Consequently, this restriction increases the transportation cost per tonnes of steel products.

As to deep sea transport, there are no major problems, but some ports' facilities need improvement, in order to reduce loading time (renewal of equipment and installation of port cranes of higher lifting capacity).



2001 transport shares: unknown.

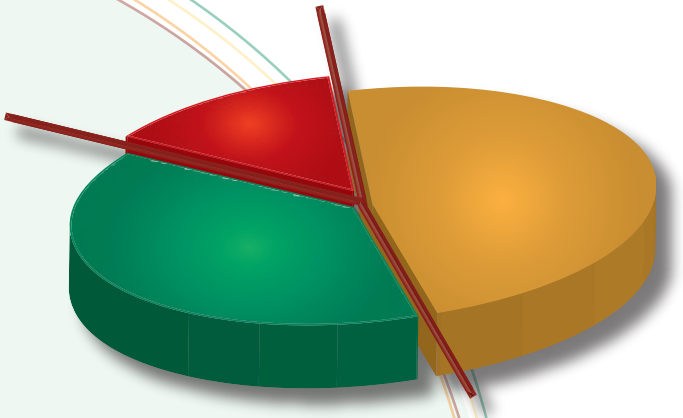
Source: Eurofer

Since 2001, one of the main objectives of the Italian government has been to improve the transport infrastructure within the country. Many plans were developed (i.e. the doubling of the highway between Bologna and Firenze trough the Appennino's mountains, the improvement of the highways connecting Genova and Venezia Mestre, the completion of the highway from Livorno to Civitavecchia/Roma, the improvement of the highway from Napoli to Reggio Calabria, the rail lines for the high speed train, the third railway line between Genova and Milano and the bold enterprise of the Messina rail/ road bridge...). At present, these projects have yet to be completed, and most of them remain at the planning stage.

A new concept is being explored to expand and improve the so-called "sea highways". This requires an increased availability of "roll on - roll off" sea vessels to allow such multimodal links to replace wholesale road freight. The elongated shape of Italy means that this system has the potential to significantly reduce transport costs as well as to be more environmentally-friendly. The implementation of such an approach would, of course, require significant investment at the ports and in the merchant fleet.

As far as ILVA is concerned, sea transport has increased at the expense of road transport. This expansion includes products that, in the past, were transported only by truck.

Unfortunately, as the Italian railway company preferred to operate only a scheduled train service, the company (ILVA) was not able to increase the volume of freight carried by rail.



* Water share corresponds to deep sea.

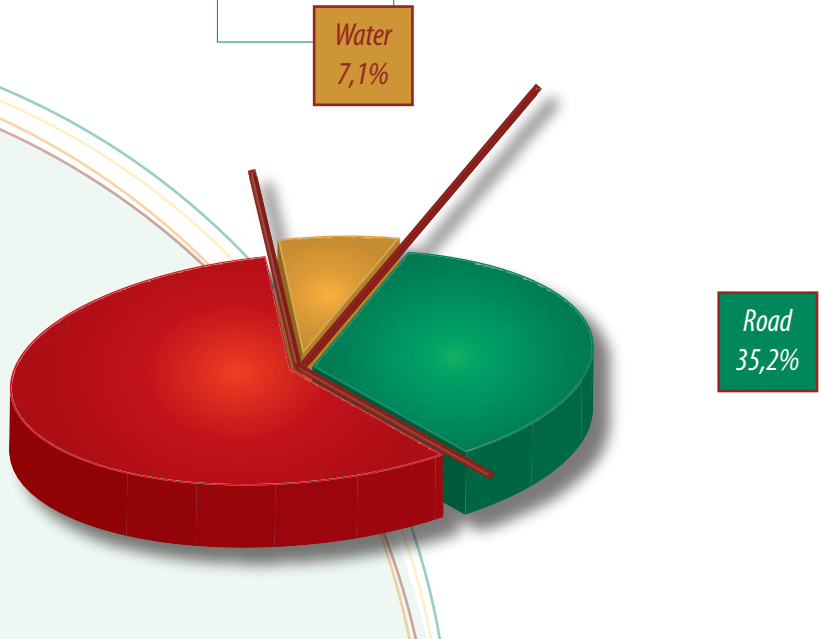
As a reminder, in 2001, the shares were 8.0% (rail), 91.0% (road) and1.0% (water – deep sea was excluded).

Source: Eurofer

Transport by rail remains by far the most important transport mode for the Luxemburg steel industry. Nevertheless the share of road transportation is increasing continuously. The main reasons for this evolution are:

- The higher cost of rail transportation, especially for the single wagon mode.
- The higher flexibility of road transportation.
- The closure of rail facilities due to internal revamping programs in Germany and France. To preserve or even develop their market share, the railway companies must be efficient and cost effective. They have to propose highly flexible solutions that meet customers' needs. The ongoing liberalisation process of the railway environment gives this mode a unique chance to boost its importance.

Built on customer oriented service, the growth of road freight should go on. However, it could be temporaryly slowed down by restrictive political decisions like road tolls, environmental legislation, etc...



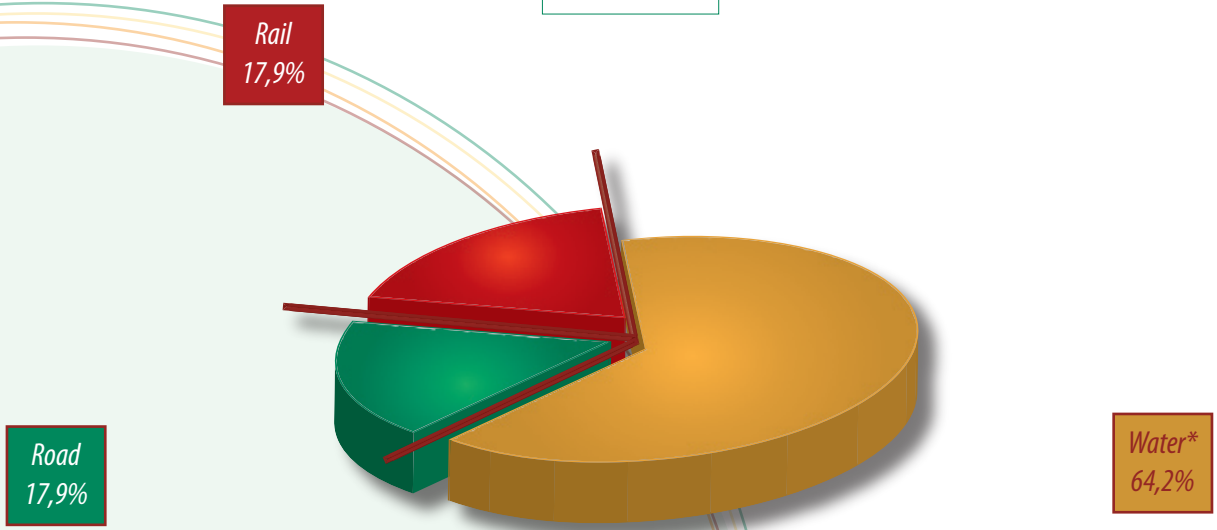
As a reminder, in 2001, the shares were 60.5% (rail), 31.3% (road) and 8.2% (water).

Source: Eurofer

Each of the four freight transport modes (road, rail, inland and coastal waters) is significantly represented, and their respective shares are well balanced, which gives shippers, in the Netherlands, a competitive edge in any choice for a modal split.

National and international road transport is under pressure due to increasing congestion, taxation, and a historic lack of governmental investment in the road infrastructure. The importance of rail and transport by water will increase in the coming years. Maintenance and further development of related infrastructure is considered to be of upmost importance.

In spite of the difficulties caused by the increasing congestion of the Dutch road network, an increase of road freight has been observed, especially for distances under 250 kilometers.



* Water: barge (22.4%) - Costal navigation (22.4%) - deep sea (19.4%).

As a reminder, in 2001, the shares were 16.0% (rail), 23.0% (road) and 61.0% (water).

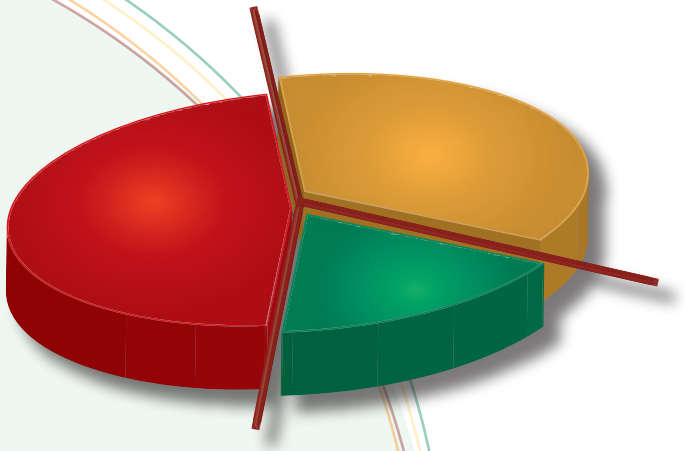
Source: Eurofer

All modes of freight transport, i.e. railway, road and river transport are important for the Slovak Republic steel industry. Road transport represents 17% of its total transport volume, while rail freight is used for 83% of the transport of steel products. For river transport it is necessary to consider the setting of the river port in Bratislava, which is located 400 kilometers from Košice. Accordingly, railway transport precedes all river transports. Also an access to Adriatic and Baltic ports is provided by rail. The above percentage distribution is related only to final steel products and does not include transport of raw materials, which are exclusively delivered by rail. From the total amount of 83% rail transport, 36% of the products concerned are subsequently transported by waterway.

Railroad transportation tariffs for import and export on the main routes were stable in 2003. Within the Slovak Republic the first license applications were submitted for the third operator on railway infrastructure.

International transport by Road was significantly impacted by the number of ECMT (European Conference of Ministers of Transport) permits granted, which were issued on a bilateral basis by the Slovak Republic to individual EU Member States. Transport tariffs remained stable throughout the year and road transport showed an increasing trend within the total volume of transported steel.

River transport of products on the route Danube-Mohan-Rhine was limited by low Danube water levels during 8 months. Furthermore, as a result of low water levels, the prices for river transport were significantly higher than in other years.



2001 transport shares: unknown.

Source: Eurofer

The ratio of the quantity of goods (in tonnes) carried by road to the quantity carried by rail is 29:71. The ratio of transportation carried out by road to transportation carried out by rail, taking into account the quantity and the distance of the transport (tonnes-kilometres), is 48:52. This ratio does not take account of transport carried out by companies for their own needs, which would further increase the proportion of goods carried by road.

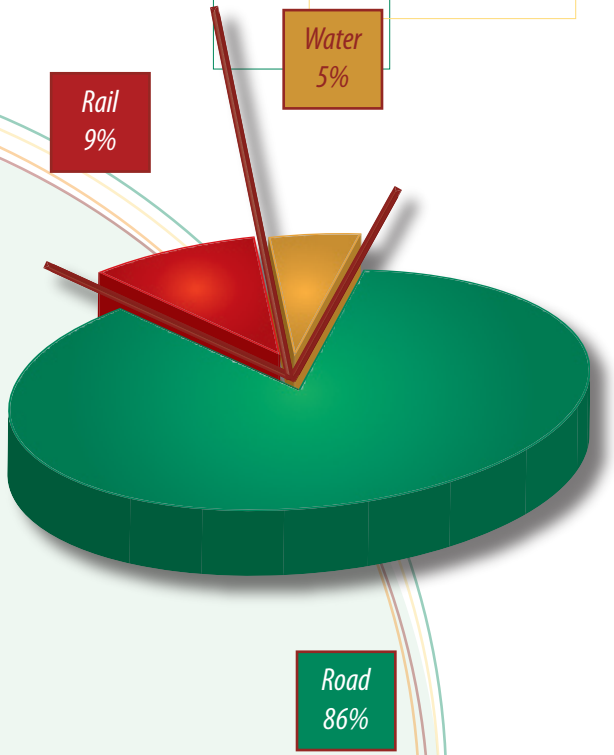
Combined transport accounts for a very small proportion of the overall system of goods transport (0.8%).

The Port of Koper plays an important role in the transportation of goods, handling as much as 90% of Slovenia's total overseas freight, of which 90% is imported goods and just 10% exported goods. The loading and unloading of goods of Slovenian importers and exporters accounts for 40% of total loading and unloading, while the remaining 60% is carried out for foreign clients. The link between the Port of Koper and the hinterland is provided by roads and rail tracks carrying up to three-quarters of the goods.

The high costs of air transport mean that it can only be justified for the transport of urgent or valuable consignments and perishables.

Inland freight: The majority of inland freight is transported by road (90%). Inland freight transported by road accounts for 81% of all road freight. Rail freight accounts for just 10% and there is practically no inland combined transport.

International freight: Two-thirds of international freight is carried by road. International freight accounts for 18% of all goods transported by road. Rail accounts for one-third of international freight. In international rail transport the share of combined transport is 8.5%.

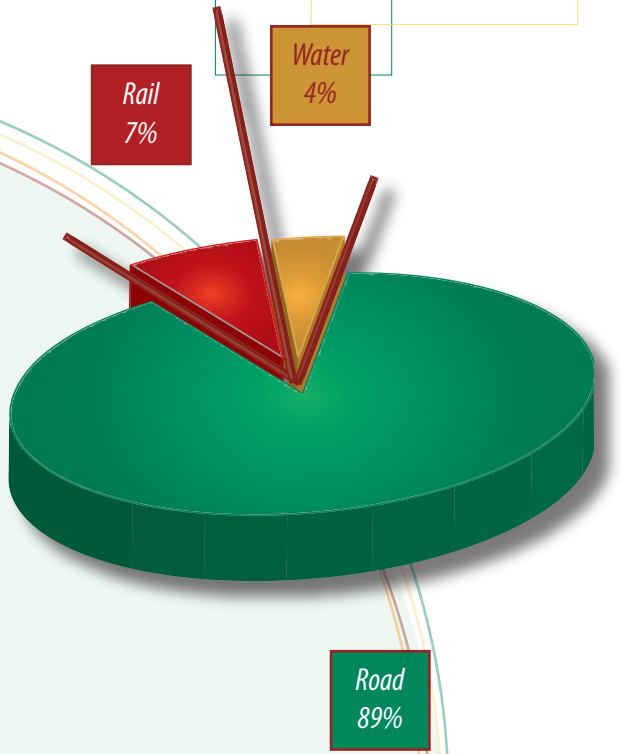


2001 transport shares: unknown.

Source: Eurofer

Road freight is normally used for shipping small quantities of finished goods to customers, in Spain or in Europe. Rail transport is employed for shipping bigger quantities (over 500 tonnes) of finished goods to customers within Spain, or smaller tonnages to customers with direct rail connection, in Europe. Transport by water is used for shipping goods to customers in the Canary Islands and in other continents.

In the future, the Spanish steel industry has planned to increase its recourse to rail freight, to avoid the congestion of traffic on the Spanish roads and motorways, as well as the saturation of truck loading facilities. Moreover, long distance deep sea transport (intercontinental export) should also be increased. However, various improvements shall take place for this goal to be reached: the lack of rolling material (cars and engines), the low quality of service (timetable reliability), the congestion of the connections between Spain and France (Portbou-Cerbére), long transit times in Europe (7 days door-to-door in France), the higher costs for transport by rail than by road, shall be addressed. As far as the transport by water is concerned, its future development would be limited, if the present increase of freight fares was maintained. Moreover, higher flexibility and competition in harbour services should also be achieved in the meantime (stevedoring).



As a reminder, in 2001, the shares were 14.0% (rail), 86% (road). Water share was not communicated.

Source: Eurofer

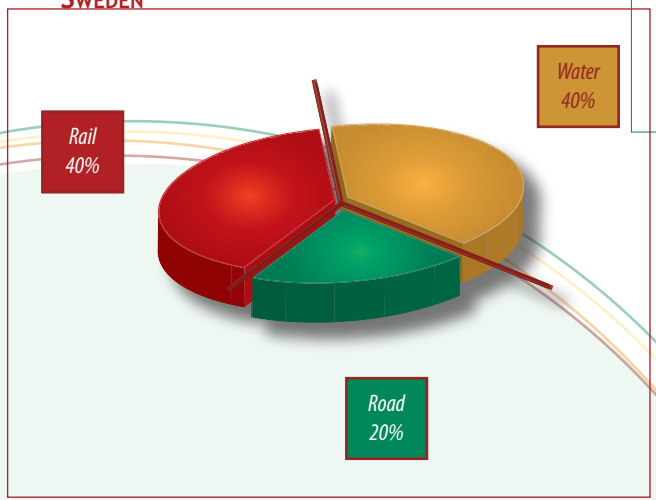
In Sweden, due to the very small size of the domestic market, the Swedish steel industry is very dependent on cost effective transports over long distances. The most important transport modes are rail (40 %) and short sea shipping (40 %).

The deregulation of rail transports and the total separation between rail infrastructure and the operators in the early nineties have brought positive developments to the Swedish rail cargo system.

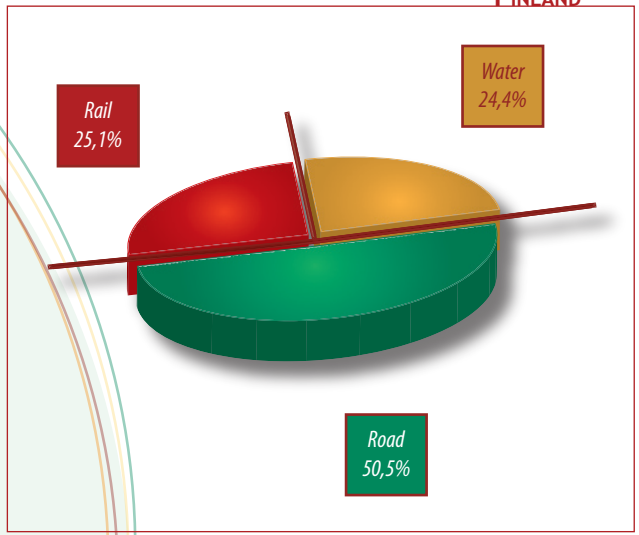
Many of the Swedish steel companies have developed new systems for their short sea shipping to the most important export countries in the middle of Europe.

Due to the long distances to export markets, road freight is only of importance for the domestic distribution within Sweden.

Sweden



Finland

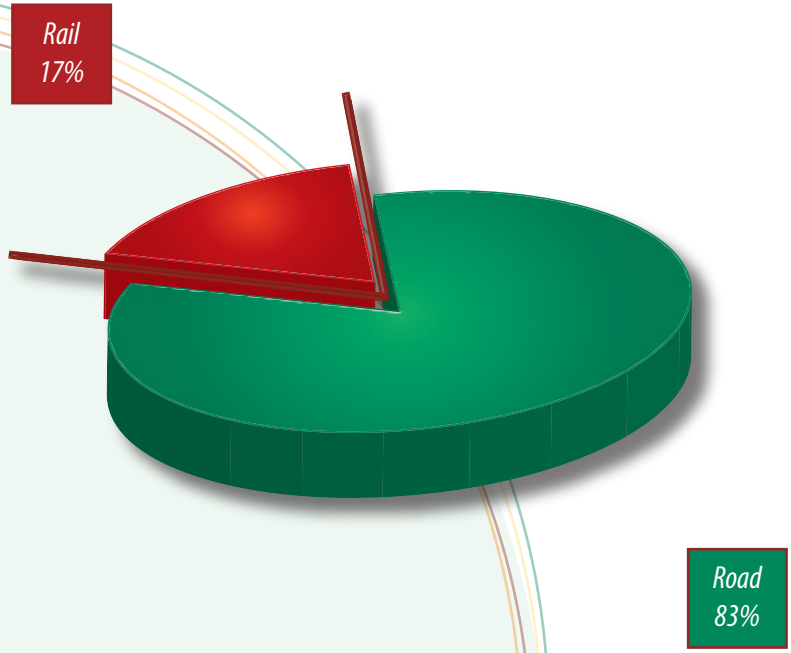


2001 transport shares: unknown.

Source: Eurofer

The balance between the various transport modes for the delivery of steel products to customers in 2003 was similar to 2001.

Rail transport was used for approximately 17% of products, with 83% delivered by road. For the first time, inland water transport began to be used for transport between steelworks and the docks for export shipment, although this only accounted for 0.15% of all steel deliveries. The volume of rail deliveries for some product lines increased, but for others it was reduced significantly because two works which had used rail deliveries in 2001, had significantly different production configurations in 2003. (One was closed for most of the year whilst the other work was devoted totally to export by ship direct from the works). As a result, total steel deliveries to customers were reduced to 12.4m tonnes in 2003 compared to 13.5m tonnes in 2001.



Transport shares unchanged compared to 2001.

Source: Eurofer

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

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