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Market Situation / Economic and Steel Market Outlook 2009-2010

EUROFER's April'09 report on the *Economic and Steel Market Outlook 2009-2010* illustrates in detail the dramatic impact of the economic crisis on the EU manufacturing and construction sectors. The sharp decrease of activity in the steel using industries translated into a drop in EU steel demand by almost 50% in the first quarter of this year.

The report shows that the situation will not improve significantly in the course of 2009. Orders books in industry are getting exhausted due to the lack of new orders. Moreover, current stocks at end-users and in the steel distribution chain are assessed as being still much too high compared to the weak activity levels. This means that a further significant inventory reduction is needed before the supply-demand situation can come closer to a balance. Consequently, order intakes at EU steel mills are expected to be at unprecedented low levels for the time being. Meanwhile, import pressure in the EU has remained relatively high.

On balance, the latest forecasts show apparent steel consumption falling by 40-45% year-on-year in the first half of this year, and by almost 30% in the whole of 2009.

The outlook for 2010 remains depressed: real steel consumption will remain at a low level, while apparent consumption could see some growth, owing to the fading influence of the stock cycle.

The full report can be downloaded on www.eurofer.eu

Climate Change / Commission presents list of sectors at risk of carbon leakage (ETS)

On 29 April 2009 the European Commission presented a provisional list of sectors and sub-sectors to be considered as being at risk of 'carbon leakage'* under the revised EU Emissions Trading System (ETS). According to that list, during the 3rd trading period from 2013-2020, installations

of the following steel sub-sectors would receive 100% of allowances for free, up to the level of ambitious benchmarks:

- mining of iron ores (including sintering and pelletizing)
- manufacture of coke
- production of iron, steel and ferro-alloys (covering upstream steel making activities down to hot and cold rolling)
- manufacture of tubes
- cold drawing of bars

At this stage, not considered as being at risk of carbon leakage are:

- cold rolling of narrow strip
- cold forming and folding
- foundries
- forges
- treatment and coating of metals

Installations of these sub-sectors would receive 80% of allocation for free in 2013, decreasing to 30% in 2020 and to 0% in 2027.

The provisional list has been established on the basis of the *quantitative* leakage assessment and the thresholds for sector qualification as set out in the ETS directive:

- a substantial increase of production costs, calculated as a proportion of the Gross Value Added (CO₂/GVA), of at least 5%, and non-EU trade intensity above 10%, or
- increase of production costs (CO₂/GVA) of at least 30%, or
- non-EU trade intensity is above 30%

Further data is being processed by the Commission and a *qualitative* assessment will be added in order to supplement the list by July 2009. Afterwards the list will be discussed in the Council. Its final adoption is foreseen for December 2009, after the international climate change negotiations in Copenhagen.

EUROFER and its members have been and are continuing to be very active in providing the required data to the Commission.

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* 'Carbon leakage' in the context of the ETS directive is the shift of production and greenhouse gas emissions from the EU to non-EU countries as a consequence of the unilateral implementation of the ETS by the EU.

Anti-dumping / India closes market for stainless steel cold rolled flat products

At the end of March 2009, the Indian authorities notified to exporters of stainless steel cold-rolled flat products from several countries, inter alia the European Union, their preliminary findings in an anti-dumping (AD) investigation initiated on 25th November 2008. This notification was immediately followed by the imposition of provisional AD duties at a level that is leading to a de-facto closure of the Indian market for most of the concerned products. The Community exporters have raised a number of objections with regard to the assessment of dumping and injury. EUROFER liaises with the Commission services to co-ordinate the defence of its member companies in this trade case.

Trade / Steel safeguards initiated

After the follow-up G-20 London meeting in April 2009 reconfirming international commitment to refrain from protectionism, India, a key G-20 member, initiated a steel safeguard* investigation on import of hot-rolled flat steel products on top of an already ongoing anti-dumping procedure for the same products. Similarly, Israel opened a safeguard investigation on imports of rebar.

Both cases could set the stage for a proliferation of safeguard actions in the global steel market triggering a market-disruptive diversion of steel to the EU market.

EUROFER has therefore requested the European Commission to monitor the procedures and act firmly against any infringement of WTO rules.

* Safeguards: According to the WTO its members may restrict imports of a product temporarily (take 'safeguard' actions) if its domestic industry is seriously injured or threatened with injury caused by a surge in imports. An import surge justifying safeguard action can be a real increase in imports (an *absolute increase*) or an increase in the imports' share of a shrinking market, even if the import quantity has not increased (*relative increase*).

Stainless Steel / Nickel-containing products may be excluded from the new EU Eco-label

On 2 April 2009, the European Parliament adopted a first reading agreement that it had concluded with the Council on the revision of the EU Eco-label scheme.

The Commission may now decide not to award the Eco-label to goods which contain substances suspected of being toxic, hazardous to the environment, carcinogenic, mutagenic or toxic for reproduction (CMR). This is in contradiction with the EU's chemicals legislation as the latter restricts the use of substances where there is evidence (CMR categories I and II) but not those which are only under 'suspicion' (CMR category III).

The new provision could also be applied to certain nickel-containing stainless steel products. Though there is new evidence to the contrary, nickel is currently suspected of being carcinogenic.

EUROFER will engage with the Commission in order to ensure that stainless steel products will not be covered by such a restriction.

As there is a whole series of suspected CMR substances, the initial objective of the Commission to widen the application of the Eco-label may now prove unattainable.

Provisional text of the regulation: www.europarl.europa.eu

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R&D / Commission restricts extension possibilities for RFCS projects

The European Commission has decided that no further request for the extension of duration of contracts under the *Research programme of the Research Fund for Coal and Steel* (RFCS) will be accepted, "except in very exceptional and duly justified cases" within the context of *force majeure*. Even the consequences of the unprecedented financial and economic crisis are not assigned *force majeure* status.

The decision, which already has been put into praxis, seriously endangers research projects of EUROFER members as they may have to stop projects as a result of cuts or no further extension of EU funding. EUROFER sees no merit in preventing research projects from being completed because of delays, especially if the cause for delay could not have been prevented by exercise of due care.

The RFCS has a budget of 50 million Euros per year and is the only EU fund covering research projects of the European steel industry.

EUROFER members are asked to provide the EUROFER secretariat with detailed examples of period extension rejections. Contact: b.kohl@eurofer.be

Anti-dumping / Commission terminates AD proceedings on stainless steel

With a decision published on 16 April 2009, the European Commission terminated the anti-dumping (AD) proceeding on imports of stainless steel cold-rolled flat products originating from China, South Korea and Taiwan.

EUROFER had filed this complaint in December 2007. In the meantime, the economic crisis and radical changes in market conditions had rendered this complaint obsolete. Therefore, EUROFER withdrew the complaint with a view to re-filing it in circumstances which would give a sounder basis for measures in case of any new import surge causing injury to the Community industry.

Whilst the AD proceedings were terminated, the Commission took the simultaneous commitment to install a specific monitoring mechanism that will provide almost real time information on import flows and to conduct expeditious investigations allowing accelerated imposition of provisional measures shortly after initiation of a new case.

New EUROFER publications

EUROFER has published a *Manifesto of the Steel Industry for Members of the European Parliament 2009 to 2014*. The Manifesto addresses steel relevant issues to the candidates for the EP elections from 4 to 7 June 2009. It urges the newly elected Members of the EP to secure an international level playing field for European steelmakers. The Manifesto can be downloaded on www.eurofer.eu.

EUROFER has published its first edition of *European Steel in Figures*, covering on 15 pages an overview of the key European steel statistics for the period 2004 to 2008. The brochure can be downloaded on www.eurofer.eu.

Forthcoming Events

3-4 June 2009 - Düsseldorf: *SBB Steel Market Europe 2009* - the 5th Steel Business Briefing's event intends to provide top level views on the steel futures and finance. EUROFER director Gordon Moffat will speak on "Trade and Protectionism - Has Europe got the balance right?". Further information on www.steelbb.com