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Market Situation / Steel demand collapsed

Since the 4th quarter of 2008 steel demand has collapsed and order levels fell by almost 60 % on average. Apparent consumption is forecast to decline by 30 % in the first quarter of 2009 with a further significant decline in the second quarter. Production and capacity utilization has decreased by 30 % on average. Steel prices have fallen by 50% and 72,000 jobs have been lost or are on short term working, representing 17 % of the EU's steel workforce of 440,000 directly employed people.

EUROFER has asked the European Commission and the Member States to take appropriate short term measures to balance the impact of the economic crisis on manufacturing industry, inter alia by:

- requesting banks and the European Central Bank (ECB) to increase their credit facilities for steel customers and securing guarantees and availability of credit insurance, in order to increase the liquidity in the market;
- strict enforcement of EU trade laws as a precondition for a level playing field with competitors from non-EU countries;
- support from the recovery plan for R&D in order to enhance the development of the technologies necessary to meet the EU's climate change objectives.

Industrial Emissions / EP adopts European Safety Net for IPPC installations*

In its first reading of the Commission proposal on Industrial Emissions (IPPC recast) on 10 March 2009, the European Parliament adopted 85 amendments, including the introduction of a European Safety Net (ESN) for emissions which under no circumstances shall be exceeded. <http://www.europarl.europa.eu>

In its advocacy vis-à-vis the Parliament, EUROFER concentrated on three priority issues, and will continue to do so vis-à-vis the Council and the Member States:

- Rejection of the ESN approach since it contradicts the flexibility principle of the current IPPC directive and since it does not describe where and how the ESN value would be set.
- Deviation from the proposed Emission Limit Values (ELVs) for NO_x from *gas fired boilers* (100 mg/Nm³) and *gas turbines using other than natural gas as fuel* (90 mg/Nm³). EUROFER proposes for gas fired boilers using blast furnace and basic oxygen furnace gas an ELV of 200 mg/Nm³, for coke oven gas 300 mg/Nm³, and for gas turbines using these gases an ELV of 100 mg/Nm³ - still more ambitious than current legislation.
- Rejection of ELVs for dioxins and furans from iron ore sintering and pig iron and steel production, as this is discriminating steel. According to EPER, the European Pollutant Emission Register (<http://eper.ec.europa.eu>), steel is only one of nine sectors of the 20 installations in Europe emitting between 0.01 kg and 0.24 kg dioxins and furans per year.

On NO_x the Parliament adopted an amendment setting a deviation from the ELV for gas fired boilers at only 135 mg/Nm³, which is insufficient for the majority of the steel industry's installations. The discriminatory provisions on dioxins and furans were adopted as well as additional cost driving provisions on soil and the update of permits. However, attempts of a large group of Members of the European Parliament to introduce ELVs for CO₂ for large combustion plants and a SO₂/NO_x emission trading system have been rejected or declared inadmissible.

It is expected that the Council will not accept all changes proposed by the Parliament and that a second reading in autumn of 2009 will be necessary.

* Integrated Pollution, Prevention and Control

Energy / No agreement between EP and Council on unbundling of industrial grids

The Council and the European Parliament (EP) are currently negotiating for a second reading agreement on the revision of the directives concerning common rules for the internal market in electricity and in natural gas.

The principle objectives of the revision are the unbundling and regulation rules for electricity and gas supply grids. EUROFER's position is that industrial grids must be exempted from the unbundling as the generation and transport of energy is not a business purpose for steel companies but an integral part of steel production. A reasonable division of the grid costs and an organisational, or even proprietary separation of grid operation is extremely difficult in the steel industry, and would involve considerable additional bureaucratic costs. Moreover, the size of an industrial grid is insignificant compared to the structures of an integrated energy supply company.

The issue is currently one of the obstacles for an agreement between the EU institutions as the Parliament is strongly supportive of an exemption for industrial grids from the unbundling while the Council is against.

It is therefore uncertain whether an agreement can be reached under the Czech EU presidency and before the EP elections in June.

EUROFER position paper <http://www.eurofer.eu>

Research / ULCOS II - New steel initiatives for a sustainable society

In March 2009, the Steering Committee of the European Steel Technology Platform (ESTEP) - formed by EUROFER members, the EU Commission and Member States representatives, decided to proceed with the ULCOS project (Ultra Low CO₂ Steelmaking). This major breakthrough initiative of the steel industry contributes to the EU climate change objectives, its goal being to cut the current European steel industry's CO₂ emissions by 50% in the long-term.

Programmes were also approved which focus on reducing CO₂ emissions from the European steel industry's supply chain and creating new steel products that help consumers to reduce their own CO₂ emissions such as lighter steel for vehicles or energy efficient buildings.

The total budget corresponding to these programmes, which fit into the public-private partnership initiatives promoted by the European Commission in its Economic Recovery Plan, amounts to approximately €1 billion in the short and medium term.

To achieve the ULCOS' goal, new blast furnace based technology with Top Gas Recycling (TGR) with Carbon Capture and Storage (CCS) is the most promising technology for reducing CO₂ emissions from steelmaking. The setting up of a pilot plant in Germany during 2010-2014 and of an industrial demonstrator in France to run at full industrial scale during 2011-2015 will help in demonstrating the technical and economic viability of both TGR & CCS concepts, before deploying the technology within existing steelmaking facilities after 2020.

Investments are substantial for the steel industry, estimated at 800 million Euros for both pilot projects.

More information: http://cordis.europa.eu/estep/home_en.html

Recycling / High packaging steel recycling rate contributes to reducing CO₂ emissions

With a recycling rate of 69 % in Europe in 2007, steel for packaging surpassed the EU's targets for metal packaging recycling as far back as 2001. This accomplishment has been followed by continued progress in recycling rate of steel for packaging, reflecting the industry's commitment to reducing its environmental footprint and producing a sustainable packaging solution.

Indeed, the 2007 rate of 69 % of steel packaging recycling represented over 2.5 million tonnes of steel cans being recycled, saving 4.8 million tonnes of CO₂ which is equivalent to the CO₂ produced by 2 million cars during the same year. Further information www.apeal.org

On a worldwide scale, steel can recycling also reached highest recorded level for the third consecutive year of increase with a rate of 68 % in 2007, resulting in avoiding 13 million tonnes of CO₂ emissions.

Further information www.worldsteel.org

Air Quality / Revision of the NEC directive

The European Commission plans to revise the EU directive on national emission ceilings (NEC-directive, 2001/81/EC). Discussed are further emission reductions of acidifying and eutrophying pollutants by 2020 compared to 2010: sulphur dioxide (SO₂) by about 70 %, nitrogen oxides (NOx) 40 %, volatile organic compounds (VOC) 30 % and ammonia (NH₃) 25 %. Particulates PM_{2,5} should be reduced by about 45 % by 2020 compared to the year 2000 on the average over Europe.

Additional pollutants may be covered, in particular heavy metals (Cd, Pb, Hg, As, Cr, Cu, Ni, Se, Zn) and carbon monoxide though no reduction obligations for these are planned at this stage.

But also a market-based instrument as an alternative to the NEC Directive is discussed, in particular the applicability of an emissions trading system.

The proposal is expected to be adopted by the Commission by the end of 2009.

Forthcoming Events

23-24 April 2009 - Santander: Gordon Moffat, EUROFER Director General will speak on the European Steel Market during the *Wire-Drawing Industry Committee's Congress*.

28 April 2009 - Frankfurt: Gordon Moffat will speak on the European Steel Market in the *Dow Jones Steel Market Dialogue*.

Beginning of May 2009 - Brussels: *Exposure Scenario Workshop* organized by EUROFER for its members (exclusively). The event will address REACH issues particularly relevant to iron & steel applications, with the participation of EUROMETAUX speakers to share industries' views on this issue. Contact person: m.miguel@eurofer.be

11-14 May 2009 - Avilès: The *2009 EUSteelForum*, a high level training course for the European Steel Sector, aims at managers, technical staff, trade unionists and other professionals operating in the steel industry and closely related areas, who need to understand and address the technology-driven operation and organisational changes taking place in the European steel companies. Further information on www.steel-academy.com

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

Staff news

In response to the impact of the economic crisis it is normal that EUROFER should respond in an appropriate way and has therefore reduced its number of staff from 29 to 27 employees. The number of staff will be further reduced through the ending of the contract of one employee on secondment to EUROFER.

Special enclosure: State-Business Nexus in China's Steel Industry

March 2009

Issue 4

EUROFER presents study on the State-Business Nexus in China's Steel Industry

Under the patronage of Elisabetta Gardini, Member of the European Parliament (MEP), EUROFER presented on 24 February 2009 the results of the study on the *State-Business Nexus in China's Steel Industry*, which had been prepared by Prof. Dr. Markus Taube of the renowned THINK!DESK China Research & Consulting. About 200 invitees attended the event at the Parliament in Brussels, amongst which MEPs, representatives of the Member States, the European Commission and the press.



Photo: EPP-ED Group - European Parliament

The speakers: Elisabetta Gardini MEP, Gordon Moffat (EUROFER Director General), Prof. Dr. Markus Taube (THINK!DESK)

China's steel industry: severe market distortions at international level

Among the major conclusions of the study are the severe distortions on cost/price competitiveness provoked by Chinese steel enterprises at international level.

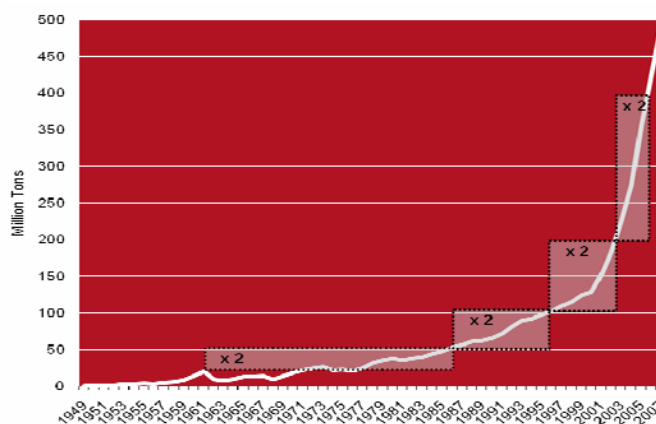
Firmly embedded in a powerful state-business nexus, China's steel industry operates in close relation with governmental agencies at local, provincial and central levels, being sanctioned when not complying with governmental policies.

The Chinese steel industry benefits from specific development programmes undertaken by the Chinese government, by means of massive domestic steel subsidies and support practices, such as fiscal subsidies, capital market interventions, preferential tax arrangements, subsidised loan facilities, systematic preferential access to raw materials and other inputs, land and energy, while authorizing the non-fulfilment of internationally accepted minimum standards of labour protection and environmental sustainability.

Irrational increase of Chinese steel production by Chinese governmental involvement in steel industry activities

As a result of the strong Chinese governmental involvement in its steel industry's activities, the Chinese steel production has boomed artificially, reaching in 2007 a drastic growth of 250 % in four years time only. Such an irrational increase creates massive excess steel capacities (pre-crisis estimates of over 100 million tons per year).

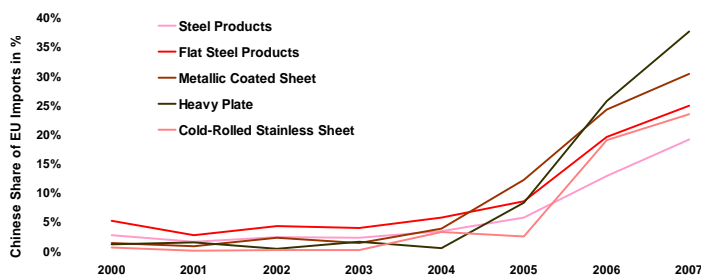
Development of the Chinese steel production - 1949 - 2007



Though the study shows that the Chinese steel industry has no genuine competitive cost advantage in steel manufacturing, China has shifted in 2007 from being a net importing country to the largest steel exporter by far - on a worldwide scale reaching 20.7 % of global steel exports in 2007. The Chinese government has been actively promoting export of excess production by means of export tax rebates, preferential export credits and guarantee schemes provided by the China Export/Import Bank and other state-owned financial institutions.

Europe is a major outlet for these Chinese exports where they have increased at an even greater speed than China's total steel exports. The Chinese share of total EU finished steel imports experienced a huge raise from 2 % in 2003 to nearly 30 % in 2007 - with an even bigger share in the higher value-added flat products.

Chinese share of European imports



EUROFER requests strict enforcement of EU trade laws

EUROFER emphasises that the results of the report require a strong reaction by the European Commission and the Member States, in particular a strict enforcement of European trade laws.

By distorting the cost/price competitiveness of its domestic steel companies vis-à-vis foreign companies, the Chinese governmental organisations are interfering in the global market system. Any further dialogue of the European institutions with China should therefore aim at securing a level playing field for European steel makers. That is even more important today to minimize the impact of the current economic crisis for the years to come.

Full report & synthesis available on www.eurofer.eu