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Economic & Steel Market Outlook 2010/11

EUROFER's Quarter 3/2010 market report on the *Economic and Steel Market Outlook 2010-2011* confirms that the EU steel market gained traction in recent months. Orders and output have been improving across a wide range of sectors but particularly so in the automotive sector and its supply chain. Meanwhile the construction industry and shipbuilding remained in the doldrums. Although real consumption is still relatively weak, the improvement in activity triggered a wave of stock replenishment in the distribution chain and at end-users. Despite stocks being replenished again, overall inventory levels have risen only very modestly since the start of the year. Stocks are largely assessed as normal in relation to the prevailing market conditions.

A more solid recovery is on the cards for 2011, in line with activity in the steel using sectors - including the construction sector - gaining further strength as investments in the EU could see some growth again. However, exports will continue to be the main driver for growth in the EU.

Despite this modest but gradual improvement in market fundamentals, managing uncertainty will remain the key challenge for EU steel industry. EU governments face the dilemma of freezing budgets and cutting deficits without stifling economic growth. Austerity programmes do not bode well for a short-term improvement in internal EU dynamics, which means that the recovery will remain lacklustre for the foreseeable future and heavily dependent on the strength of economies abroad. Furthermore, the impact of rising costs of raw materials on steel prices may jeopardise the still hesitant recovery in the steel using sectors. Imports rising faster than EU demand could put the still volatile market balance in the EU at risk.

Report: [Economic and Steel Market Outlook 2010-2011](#)

Council and European Parliament agree on Industrial Emissions Directive (IED)

After two and a half years of intense negotiations the Council and the European Parliament (EP) now have reached an agreement on the Commission proposal for a Directive on Industrial Emissions (IED). The new directive revises the IPPC directive (Integrated Pollution, Prevention and Control) and integrates six other EU directives, notably the Waste Incineration Directive (2000/76/EC) and the Directive on Large Combustion Plants (2001/80/EC). The text was adopted by the EP in 2nd reading on 7 July 2010.

The new directive maintains the flexibility and the integrated approach for setting Emission Limit Values (ELVs) in permits and it recognises the unique profile of steel industry power plants (waste gases being used to produce electricity).

The initial proposal of the EP to establish a so-called European Safety Net (ESN), which is an Emission Limit Value (ELV) that under no circumstances can be exceeded, was not adopted. The compromise found is, in case of need, the setting of "Union Wide Minimum Requirements (UWMR's)" whilst a derogation for Emission Limit Values for permitting needs to be justified and documented. An opening clause for a SO₂/NO_x Trading System proposed by the Council was removed from the final text.

EUROFER considers the agreement acceptable for the steel industry although important points will need to be further discussed for its implementation. The directive will have to be implemented by the member states within 12 months from the formal adoption by the Council.

Contact: d.croon@eurofer.be

Steelworkers and employers join forces on EU climate change policy

The European Metalworkers' Federation (EMF) and EUROFER on 25th May 2010 adopted a common position on the EU climate change policy. The metalworkers and employers call for a sustainable implementation of the EU Emissions Trading Directive (EU ETS). The EU needs to provide credible accompanying measures to manage the social consequences and has to increase support for R&D in new technologies and their subsequent deployment in Europe.

With regard to the international negotiations on climate change, the paper urges the EU to preserve the competitiveness of the European steel industry by insisting on equal treatment for globally traded carbon-intensive goods from both developed and emerging economies such as China, India and Brasil. In the absence of such conditions, the EU should not unilaterally increase its emissions reduction target from 20% to 30% and should continue to allocate free allowances for carbon leakage sectors based on achievable benchmarks.

The joint position can be downloaded on www.eurofer.eu.

EU-Russia bilateral agreement

Having accelerated the utilization of the hot-rolled coil (HRC) quota under the EU-Russia Bilateral Steel Agreement in the first six months of this year (80%), Russia has requested the Commission to grant HRC additional quota for delivery on the European market in the second half of the year. EUROFER opposes such request in view of the situation and outlook of the European steel market, distorting Russian export pricing and increasing Russian steel protectionism.

Contact: k.tachelet@eurofer.be

EU-Korea Free Trade Agreement

EUROFER expressed to the EU institutions its deep concern about the potential negative impact of the negotiated EU - South Korea free trade agreement (FTA) on its European automotive customer base. Unbalanced market access conditions and continuing government support to the South Korean car manufacturers set a framework for surging South Korean car exports to the EU with little reciprocity in reality. The proposed EU-South Korea trade deal could be the largest of the last two decades. The FTA needs to be approved by the European Parliament and the Council. A decision is expected in autumn.

Contact: k.tachelet@eurofer.be

Gordon Moffat speaks in the European Parliament on international trade

On 28th April 2010, the European Parliament Committee on International Trade (INTA) invited EUROFER Director General Gordon Moffat for a public hearing on the trade situation of the EU steel sector. Moffat clarified to the MEPs the critical function of a competitive steel industry as an indispensable link in the European manufacturing supply and value chain, backbone of Europe's prosperity. Stressing the importance for EUROFER to develop close relations with the EP similar as with the Council and the European Commission, he called upon the MEPs to focus on tackling the trend of increasing steel market and cost distortions from government policies, notably emerging economies, and from elimination of competition caused by excessive market concentration and pricing power, notably raw materials.

The Lisbon Treaty, in force since December 2009, gives the EP legislative powers in the EU's common commercial policy.

Commission launches public consultation on the future EU trade policy

Following the 'Europe 2020' strategy adopted by the European Commission on 3th March 2010, the European Commission is now launching a broad public consultation on the future direction of EU trade policy. The deadline for contributions is 28th July 2010. The Commission's intention is

to set out its policy during autumn 2010 explaining how trade policy can help achieve the objectives of the 'Europe 2020' Strategy. The purpose of the consultation is to gather views from relevant stakeholders regarding the rationale, scope and strategic objectives for a future EU trade policy.

EUROFER will participate in the consultation expressing the steel industry's views on issues such as protectionism, trade defense instruments, and access to raw materials.

Consultation: <http://trade.ec.europa.eu>

New sulphur restrictions in marine fuels increase steel industry's transport costs

EU legislation and the *International Convention for the Prevention of Pollution from Ships* (MARPOL) are restricting the content of sulphur in marine fuels because ships are one of the leading sources of sulphur dioxide (SO₂) emissions. Research has shown that, in 2010, SO₂ emissions from ships could be equivalent to over 75% of the emissions from all land-based sources in the EU.

In October 2008, the International Maritime Organisation (IMO) agreed to amend Annex VI of MARPOL, setting by 2015 a 0.1% sulphur maximum level within the Emission Control Areas (ECAs: Baltic Sea, North Sea and English Channel). Industry now fears a drastic increase in costs and freight rates for short sea shipping with a risk for a modal shift from sea to land transport and negative consequences for the environment. A joint study of the *Institute of Transport and Maritime Management Antwerp* (ITMMA) and *Transport & Mobility Leuven* comes to the conclusion that with a shift from HFO (Heavy Fuel Oil 1.5%) to MGO (Marine Gas Oil 0.1%) freight rates for traditional short sea services may increase by 8% to 20%. For fast short sea services the figures are much higher: on average 25% for the low scenario and 40% for the high scenario.

Against this background, on 12th May 2010 the European industry sent a letter to the Commission urging to take into account the new information about the unforeseen consequences of the sulphur limits in the ECAs, to conduct an overall impact assessment and to push for amending the IMO decision.

EUROFER will continue to follow the issue closely.

The ITMMA report can be downloaded on www.ecsa.be

Publications

In May, EUROFER published its *Annual Report 2009*. The report is available on the EUROFER website.

EUROFER's *European Steel in Figures 2005-2009* can also be downloaded on www.eurofer.eu.