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Market Situation / Economic and Steel Market Outlook 2009-2011

EUROFER's October report on the *Economic and Steel Market Outlook 2009-2011* shows that the EU economy most likely turned the corner during the 3rd quarter of 2009. However, the recovery pencilled in for the coming quarters will be slow and is still surrounded by high levels of uncertainty.

Prospects for the EU's steel using sectors - such as automotive and the construction sector - remain subdued. Despite stabilising financial markets, financing is still a bottleneck for many companies. Industrial orders are still weak despite some inventory replenishment. The report shows that while year-on-year output growth should turn positive again in the 2nd quarter of 2010, it could take to 2011 before a more pronounced rebound in output begins.

Weak activity in the steel using industries and sharp destocking in the steel supply chain resulted in steel demand (apparent steel consumption) falling by 45% year-on-year in the first half of 2009 and by almost 32% in the 3rd quarter. The inventory situation is now better aligned with the current weak level of steel demand. Some customers returned cautiously to the market to fill gaps in their stocks; this led to the downward trend in orders at EU mills bottoming out.

The stock cycle will also set the stage in 2010. Some inventory build-up following heavy destocking in 2009 will lead to a 'technical' recovery in steel demand. With a forward view to 2011 it is expected that rising end-user activity should provide a broader basis for steel demand growth.

So far this year, imports were at much reduced levels compared with 2007 and 2008. However, global steel production increasing in anticipation of a recovery in steel demand which yet has to materialise could lead to rising imports into the EU.

Report: [Economic & Steel Market Outlook 2009-2011](#)

Wolfgang Eder new EUROFER president

On 1st of October 2009, Dr. Wolfgang Eder, Chairman and CEO of the Managing Board of the Austrian steelmaker voestalpine AG, took over the presidency of EUROFER. He was elected unanimously by the Board and General Assembly of EUROFER succeeding Dr. Karl-Ulrich Köhler of ThyssenKrupp Steel AG.



Born in 1952, Eder studied law at the University of Salzburg, where he received his doctorate in 1976. In 1978, he joined voestalpine to build up the department "Corporate Law / Mergers and Acquisitions". His career within the company led to his appointment as a Member of the Managing Board in 1995. In 2001, Eder became deputy chairman of voestalpine AG and in 2004 its chairman and CEO.

voestalpine AG employs 41,000 people and generates a turnover of more than 11 billion Euros per year producing 6.8 million tonnes of steel.

For more information: www.voestalpine.com

Working document from the European Commission on importance of steel sector

In a working document from the EU Commission published on 30 July 2009, "European Industry in a changing world", it was acknowledged that steel is an important sector, crucial for the European economy. In the document it was stated that production of steel represents the first upstream step in the manufacturing value added chain. It was also "100% recyclable and is actually recycled to a large extent in the EU. It therefore contributes extensively to the sustainability of our society."

The document proceeds to make a SWOT analysis* of the steel industry in Europe. The strengths of the steel industry are seen as:

- Intensive technology and highly innovative - only 30% of the steel products on the market today existed 10 years ago
- The industry has a strong position on domestic markets and particularly in high value added products
- Strong technological links have been established with the main client sectors, such as the automotive, aerospace and high performance engineering industries to develop tailor-made products
- Highly skilled manpower and a competitive edge in terms of productivity, organization, logistics and services

The challenges for the EU steel industry were linked to the cost and availability of inputs (raw materials, energy, and labour) and to competition from third country producers operating under a different legislative framework.

The Commission also recognizes, with a view to the EU's climate change objectives, the European steel industry's limited potential for improving energy efficiency in the short term, and admits the threats to it by increasingly strict regulation, namely concerning energy use, CO₂ emissions and pollution prevention and control.

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* *SWOT Analysis* is a method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or business venture

Climate Change / European Commission recognises steel industry as being at risk of carbon leakage

The revised EU emissions trading directive (2009/29/EC) foresees the establishment of a list of industry sectors which are exposed to a risk of carbon leakage (de-location of production and CO₂ outside the EU) and which therefore will continue to receive CO₂ allowances free of charge during the third emissions trading period from 2013 to 2020.

On 18 September 2009, the European Commission's draft list was adopted by the EU Committee on Climate Change. The committee is composed of experts of the EU member states and chaired by the Commission. The main activities of the European steel industry have been identified as being at risk of carbon leakage:

NACE code *	Steel industry activity identified as being at risk of carbon leakage
27.10	Iron, steel and ferroalloys making
27.21	Steel tube making
27.22	Cast iron tube making
27.31	Cold drawing of bars
13.10	Mining of iron ore (sinter, pellets)
23.10	Manufacturing of coke oven products

* NACE = Nomenclature statistique des activités économiques dans la Communauté européenne

Most of the EU steel industry's CO₂ emissions are covered by the above sectors. Several other steel sectors did not qualify after the assessment made by the Commission:

- Cold rolling or narrow strips of steel
- Cold rolling or folding of steel
- Steel wire drawing
- Casting of steel
- Forging of metals

If within three months neither the Council nor the European Parliament puts forward a veto, the Commission will finally adopt the carbon leakage list. However, each year additional sectors or subsectors can be added. In 2014 a revision of the entire list is foreseen.

The amount of free allowances for those sectors will be based on ambitious benchmarks so that only the best performers will receive 100% of their needs ("the average performance of the 10% most efficient installations in a sector").

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Draft Commission decision:

http://ec.europa.eu/environment/climat/emission/carbon_en.htm

Industrial Emissions / Adoption of recast IPPC directive postponed to 2010

The Council and the European Parliament (EP) have postponed the adoption of the Industrial Emissions Directive (IED), the successor of the EU Directive for Integrated Pollution Prevention and Control (IPPC), to mid-2010. The draft, which had passed first reading in Parliament in March 2009 and the Council in June 2009 is said to be stuck in the linguistic and technical adaptation procedure of the EU institutions. However, the EP rapporteur, Holger Kraemer of the ALDE group (Liberals), is expected to present his draft second reading report already in beginning of December.

The IPPC directive regulates industrial emissions other than green house gases. Its provisions are crucial for the permit procedures for steel installations.

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Transport / Setback for long wagon

The decision taken by the SNCF to restructure the freight sector by considerably reducing its share of single wagons, means that the entire steel sector, a heavy user of this type of transport, must question how to manage their rail transport, above all in France.

EUROFER is meeting senior management at SNCF and also the French government, to find solutions in order to avoid a situation which would cause severe problems in the functioning of the factories.

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Staff

It is with deep regret that EUROFER informs you of the death of Michael Schmitz who passed away at the age 63 on 10th August 2009 after a long illness. Michael Schmitz was one of the founding staff members of EUROFER, having joined us in 1978, and he retired in 2007 as director of the market studies department. He had many close friends in EUROFER and in the European industry.

Forthcoming Events

12 November 2009, Düsseldorf: *STAHL 2009*, Opportunities and Prospects. EUROFER Director General Gordon Moffat will speak on "Protectionism and unfair trade: Steel in focus of trade policies". For more details: www.stahl-online.de

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