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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	*Preparation of the Competitiveness Council of 29 September 2016* State of play of the European steel industry – Information from the Commission – Exchange of views

Delegations will find attached to this Note a Presidency Note "State of play of the European steel industry" with a view to the Competitiveness Council on 29 September 2016.

State of play of the European steel industry – Discussion Paper
Competitiveness Council, 29 September 2016

I. INTRODUCTION

The difficult situation of the European steel industry, which plays an important role in the EU economy, has already for some time been high on the EU political agenda. The Slovak Presidency acknowledges the gravity of the situation and the need to keep the issue on the political agenda. Moreover, the European Council in its conclusions of 17-18 March 2016[1] called on the Council to rapidly examine the Commission's March communication with a view to taking strong action in response to this challenge. At its meeting on 28 June 2016, the European Council recalled its March conclusions on trade and the steel sector and stated it will return to this issue for a comprehensive discussion at its meeting on 20 and 21 October. The Presidency therefore proposes this exchange of views for stocktaking on the latest developments, as well as for collecting new, forward looking ideas, as the long-term challenges of the steel sector remain important issues to solve.

II. BACKGROUND

The EU is the 2nd largest steel producer in the world with a production of 166 million tonnes of crude steel in 2015[2]. This accounts for 10% of worldwide production. China is the biggest producer with around 804 million tonnes, representing over 50% of global steel production. The sector has around 500 plants in almost all Member States, and with an annual turnover (2014) of 166 billion EUR it contributes around 1.3% to the EU's GDP. In 2015, the sector provided 328.000 direct jobs. In addition, steel forms the basis of various industrial value chains and is closely connected with many manufacturing sectors.

1 EUCO 12/16.
2 Source: "World Steel Association".

In recent years, the EU steel industry has been facing several challenges: the simultaneous effects of low demand and overcapacity in a globalised market coupled with unfair trading practices mainly from China, high energy prices and the need to invest in order to meet the green economy criteria as well as produce innovative products.

Concerning the global situation, the economic slowdown in China (which accounts for more than 50% of global steel use) and in several other emerging economies has strongly affected steel demand since 2014. At the same time, new production capacity has been established. This combined has resulted in a declining trend in the global capacity utilisation rate. Only in China itself, the overcapacity (defined as the difference between effective capacity and production) is estimated to amount to 325 million tonnes. As a consequence of this situation, Chinese exports exploded in 2014 (to around 90 million tonnes) and further intensified in 2015 (around 110 million tonnes). Approximately 10% of the above mentioned exports went to the EU, representing more than 30% of total EU imports in 2015 and covering most of the modest rise in EU domestic demand. Due to the important surge of volumes, market prices for some steel products, such as hot rolled coil, collapsed by 40%.

The excess capacity and increased exports from third countries (notably from China) gave rise to an unprecedented wave of unfair trading practices distorting the global level playing field. This also affected the profitability of the EU's steel industry. The latter's financial performance has been deteriorating rapidly in recent years and today its average operating profitability is well below sustainable levels. Companies appear to be relying increasingly on short-term debt. Investment has been sluggish and there is no immediate prospect for expansion according to financial markets. This financial performance is thought to be worse than that of several other industries and the overall manufacturing sector[3].

[3] OECD data (DSTI/SU/SC(2015)12).

Moreover, the steel industry faces specific challenges due to its energy-intensive nature, related to high energy prices, taxes and charges on energy, as well as the emissions trading scheme (EU ETS). Changing market conditions require energy-intensive industries to adapt and innovate to ensure their long-term competitiveness and sustainability. The production of steel accounts for approximately 5% of total CO_2 emissions. Steel industry is the largest emitter and a prime focus for governments. There is a need to find solutions that enable the EU to meet its environment and climate targets without damaging its competitiveness.

III. RECENT DEVELOPMENTS

The EU steel industry was already discussed by the Council (Competitiveness) in November 2015 and in February 2016. The European Parliament has also addressed the issue in the context of its Resolution on "Developing a sustainable European industry of base metals"[4] in December 2015. In addition, the Commission's communication of March 2016 has been the subject of opinions of both the Committee of the Regions and the European Economic and Social Committee.

The High-level Group on energy-intensive industries, which provides a forum for discussion for all relevant stakeholders, met already twice since its creation in October 2015. In February 2016, the Commission hosted a high-level conference on energy-intensive industries to take stock of measures taken in the current context, including the implementation of the June 2013 Steel Action Plan[5]. A second such meeting was arranged on 20 June 2016, which focused on the challenges in energy markets and the problematic nature of the Chinese economic model leading to excess capacity.

[4] P8_TA(2015)0460/ A8-0309/2015.
[5] Action Plan for a competitive and sustainable steel industry in Europe (COM(2013) 407).

At policy level, the Commission published a communication on the situation of the steel sector in March 2016[6]. The document suggested a range of policy measures to support the European steel sector in overcoming its serious challenges. This includes five areas of action: (1) a commitment to accelerate the adoption of anti-dumping measures and to make them more effective; (2) tackling the causes of global overcapacity through bilateral and multilateral outreach; (3) investing in innovation and (4) skills; as well as (5) focusing policies in areas like competition, energy, climate and the circular economy. At the same time, the Commission highlighted the important role of Member States in this context, for example in adopting the modernisation of the Trade Defence Instruments (TDIs) proposal, which would speed up anti-dumping and anti-subsidy procedures and allow the Commission to impose higher duties in certain circumstances, as well as the reform of EU-ETS post 2020.

On this, progress has been made in the meantime. In relation to ensuring a level playing field for EU industry, the Commission is using the full range of available trade policy instruments, opening investigations based on 'threat of injury' (i.e. before the actual full economic damage takes place and harms industry) and by registering imports where warranted (which in many cases reduces the high volume of cheap imports). The steel industry is the most important beneficiary of TDIs in the EU: close to 1/3 of TDIs currently in place concern steel products. There are 37 definitive steel measures in place currently, 15 of which target China, Moreover, 12 investigations are still ongoing, 5 of which target China. At the same time, the Commission has confirmed in its March Communication its intention to speed up the imposition of provisional measures. Furthermore, at the beginning of May this year the Commission has re-introduced a prior surveillance system on steel products based on an automatic import licensing system. The legislative proposal of the Commission to modernize TDIs is still under discussion in the Council and the Parliament although a majority of Member States have called for the strengthening of the TDIs.

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6 Steel: Preserving sustainable jobs and growth in Europe (COM(2016) 155).

At bilateral level, following the EU-China Summit in Beijing on 19 July 2016, it was agreed that an EU-China bilateral platform to monitor progress in addressing the issue of steel overcapacity should be established. The bilateral platform should serve at devising verification and monitoring mechanism and to find solutions to deal with steel overcapacity in China, including through sharing the EU's experience on capacity reduction. The exact content and purposes of the bilateral forum, however, remain to be further discussed and agreed with the EU's Chinese counterparts. Concerning the political, economic and legal implications resulting from the expiry of some provisions in China's Protocol of Accession to the World Trade Organisation (WTO) on 11 December 2016, the EU should ensure that TDIs can deal with the current situation – notably existing overcapacities – in the international trading environment, while respecting the EU's international obligations in the WTO legal framework.

Leaders at the G7 Summit on 26-27 May in Ise-Shima (Japan) stressed that the overcapacity challenge needs to be urgently addressed through elimination of market distorting subsidies and other support measures. Leaders at the G20 Summit on 4-5 September in Hangzhou (China) recognized that the structural problems, including excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand, have caused a negative impact on trade and employment rates. They agreed that excess capacity in steel and other industries is a global issue which requires collective responses. They also recognized that subsidies and other types of government support can cause market distortions and contribute to global excess capacity. Moreover, they committed to enhance communication and cooperation and take effective steps to address the challenges. To this end, they called for increased information sharing and cooperation through the formation of a Global Forum on steel excess capacity. This should be facilitated by the OECD with the active participation of G20 members and interested OECD members. Finally, they requested a progress report on the efforts of the Global Forum to the relevant G20 ministers in 2017. In line with this commitment, the G20 steel-making economies have participated in the recent OECD Steel Committee meeting on 8-9 September in Paris. The representatives already discussed modalities, governance, membership, activities, logistics and required resources of a Global Forum on steel excess capacity. The participants underlined the importance of the new forum. At the same time, China confirmed they wish to cooperate in open discussions. They reminded that they have already taken active steps regarding overcapacities in steel production with considerable results.

IV. EXCHANGE OF VIEWS

Action has been taken already, but continued and enhanced joint efforts are needed to provide adequate responses to the various challenges facing the steel industry. There is a need to look at long-term measures in order to maintain and improve the protection of the industry in the EU. Protection against harmful dumping practices through effective trade defence instruments and reviving domestic consumption in Europe are crucial. Above all, the implications of climate policy for the competitiveness of the steel industry need to be taken into account and guarantees need to be sought for a sustainable development of European steel industry.

Best use needs to be made of all available instruments at European and national level to bring relief to the sector and accompany its modernisation. A regulatory framework, research and financing conditions that accommodate innovation and new technologies (e.g. Carbon Capture and Utilization) can help the steel sector to remain competitive and adapt to the new realities of climate change. Nevertheless, efforts to promote energy efficiency and competitive energy prices remain key to competitive and sustainable energy-intensive industries.

The future development of the steel industry has both a direct and an indirect impact on European competitiveness, given the close economic ties the industry has with upstream and downstream sectors and its role as an important source of employment. Moreover, a competitive and sustainable steel industry has a positive effect on both local and regional development and on economic recovery and growth in numerous regions across Europe.

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In light of the overall context described above, the Presidency invites the Council (Competitiveness) on 29 September 2016 to address the following questions:

1) How do you evaluate the impact of the EU policies and instruments in dealing with the situation of the steel industry? What are the latest developments in the steel industry and what are the particular challenges this sector still faces in your country?

2) What measures on national level have been taken to complement EU action and what has been the effect of these measures?

3) What other measures would you consider as priorities in order to facilitate the situation of the steel industry in the long term?