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NOTE

From: Presidency
To: Permanent Representatives Committee/Council

Subject: *Preparation of the extraordinary Council ("Competitiveness") of 9 November 2015*
State of the European steel industry
– Exchange of views

Delegations will find attached a Presidency note "State of the European steel industry" with a view to the extraordinary Competitiveness Council on the steel sector which will take place on 9 November 2015.

COMPETITIVENESS CHALLENGES FOR THE EUROPEAN STEEL SECTOR

PRESIDENCY BACKGROUND PAPER

The aim of the extraordinary meeting of the Competitiveness Council is to address the challenges faced by the European steel sector in terms of growth, jobs and global competitiveness.

The meeting is part of the Presidency's efforts to contribute to the mainstreaming of competitiveness, as called for by the European Council.¹ It is also meant to allow the Competitiveness Council to fulfil its mandate with respect to the analysis of horizontal and sectoral issues which have significant implications for EU competitiveness.² The fulfilment of this mandate requires an ability to react quickly to important issues.

The purpose of this note is to inform the Council debate by providing background information regarding the latest trends in the steel sector and the particular challenges faced by the European steel industry.

The debate will take the format of an open exchange of views on the competitiveness of the European steel industry. Ministers will be invited, after commenting on the situation in their Member States, to provide their views as to possible EU action that should be taken to improve the European steel sector's competitiveness.

¹ Doc. EUCO 7/1/14 of 21 March 2014

² The March 2003 European Council called on the Competitiveness Council to be "*effectively consulted within the Council's decision-making processes on proposals considered likely to have substantial effects on competitiveness, alongside the responsibility of all Council formations to assess the impact of their work field*". At the same time the European Council stated that the Competitiveness Council "*must actively assume its horizontal role of enhancing competitiveness and growth [...], reviewing on a regular basis both horizontal and sectoral issues.*"

The Presidency reminds delegations that trade issues should first and foremost be discussed in the relevant Council format, i.e. the FAC Trade – the next one being scheduled on 27 November.

The Competitiveness Council meeting will be followed by an informal Ministerial dinner, in the presence of several CEOs from the European Steel industry. The dinner debate is meant to give Ministers the opportunity to exchange views with industry representatives and to get a concrete impression of the situation on the ground.

Situation of the European Steel Sector

The European steel industry has a turnover of around EUR 180 billion with direct employment of about 360 000, producing around 170 million tonnes of steel per year in more than 500 steel production sites in 23 EU Member States.

The EU accounts nowadays only for around 10% of global output, down from 22% in 2001 and 15.7% in 2007. In contrast, China's share of world steel production rose from 15% in 1999 to around 50% today.

Steel is an important element for the overall competitiveness of the EU economy, forming a substantial part of a number of industrial value chains. The supply of affordable and high-quality steel is closely linked to the competitiveness of many industrial sectors, including construction, automotive, electronics, mechanical and electrical engineering.

As a result of past restructuring efforts, the EU steel sector is nowadays more dynamic, innovative and customer-oriented. The steel industry's capacity to develop new, special properties and high-quality steel products provides a competitive edge globally. Moreover, the European steel industry is among the world leaders in its environmental performance and resource efficiency.

However, the European steel industry faces a number of significant challenges, which are described in more detail below. The section below also provides examples of existing policies that have the potential to address these challenges.

Main challenges faced by the European Steel industry

1. Global overcapacity and unfair trade practices: political engagement with our partners and making best use of existing tools

The EU steel sector currently suffers from major global overcapacity in production. Other producers suffer equally from the global economic slowdown and ensuing overcapacity, which pushes down prices and encourages trade distorting behaviour from competing regions.

As an example, Chinese excess steel capacity in 2014 was approximately 340 million tonnes, which is more than double the EU's annual crude steel production for the same year (169 million tonnes).

Overinvestment in production capacity has been exacerbated by the present economic slowdown in China. Non-EU steel producing countries have implemented trade restrictions or distortions in order to protect their local steel industries, including tariff barriers, non-tariff measures, export incentives and subsidies as well as restrictions on different types of steel making raw materials.

In addition to local protectionism, unfair trading practices are often used by third countries with the aim of exporting excess production. Where appropriate and supported by evidence, the Commission addresses this challenge through its Trade Defence Instruments (TDI). As a consequence, around 37 definitive anti-dumping measures are currently in force to protect the EU steel industry from these unfair commercial behaviours.

2. Energy costs – Global and intra-EU situation

Most recent international energy price statistics show that electricity prices in the EU are much higher compared to some other steel producing regions of the world and this has a big impact on energy-intensive sectors such as steel.

Energy price differences within the EU persist and divergences can be wide, as a result of national energy policies and taxes.

In the recently adopted proposal for the reform of the Emission Trading Scheme (ETS), the Commission aims at securing access to free allowances for energy intensive industries including the steel sector, within the limits imposed by the general climate and energy framework.

This proposal is presently under examination by the Council and the European Parliament. It also foresees the establishment of an Innovation Fund and a Modernisation Fund to extend support for the demonstration of innovative technologies and facilitate investments in modernising energy systems and boost energy efficiency in lower-income Member States.

With a view to national supporting measures within the framework of national energy schemes, state aid and competition policy is an important element to protect the Single Market. The Commission's Guidelines on renewable energy support schemes as well as the possibility for Member States to offset indirect ETS costs are helping ease the costs for industry.

3. Investment plan: modernisation of the steel industry

The EU steel industry also faces significant challenges in terms of encouraging new, sustainable investments.

The Investment Plan for Europe can help to encourage the competitiveness of Energy Intensive Industries, such as steel, through innovative solutions.

The newly created European investment Advisory Hub can develop a specific expertise on energy intensive industries and support the building-up of good investment projects.

While there are no sector specific quotas under EFSI, the EIB has already approved and granted one project on steel under EFSI and more projects could be submitted for evaluation as of now.

4. European Globalisation Adjustment Fund: supporting active labour market policies

The European Globalisation Adjustment Fund can co-fund up to 60% of the total cost of active labour market measures which form part of a coordinated package of personalised services designed to facilitate the reintegration into employment or self-employment of the redundant workers.

Conclusion

The section above illustrates the main challenges faced by the European Steel industry and it gives examples of EU policies that can provide support and help strengthen its competitiveness.

However, these are just examples and other policies and actions that could be envisaged include improving access to public procurement markets in third countries or making the best use of the possibilities given under EU State Aid rules. The forthcoming Circular Economy package also offers a potential for strengthening the EU steel industry's competitiveness.

In terms of process and monitoring of the EU steel industry's competitiveness, the High Level Group on energy intensive industries, set up by the European Commission, could be used to address the specific situation of the steel industry, together with stakeholders. Furthermore, the dialogue with important third country steel producers (like China and India) could be strengthened, including in the context of the OECD steel committee.

The Member States are invited to take these elements into account in view of the debate of the Competitiveness Council.
