# High-level Round Table on the future of the European Steel Industry
# Recommendations
12 February 2013

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# 1. Introduction

The European Steel industry is a world leader in its sector with a turnover of about EUR 190 billion and direct employment of about 360 000 highly skilled people, producing 178 million tonnes of steel per year in more than 500 steel production sites in 23 EU Member States. The European steel industry is among the world leaders[1] in its environmental performance and resource efficiency.

In addition to the typical challenges faced by a cyclical industry such as iron and steel, the developments of economic fundamentals over the last years within the economic crisis, and the evolution of prices of raw materials and energy have all presented new challenges for the EU steel producers. These challenges add to the important challenges for the sector resulting for example from a global overcapacity[2] - due in part because emerging economies started building their own capacity. Furthermore, there are difficulties in meeting some high European standards of environmental sustainability, in particular for old installations and the shift to a low-carbon and a more resource-efficient economy, as defined in the EU2020 agenda.

These challenges require the steel industry to revise its long-term strategy in partnership with other stakeholders, including governments.

Due to the restructuring efforts in the past, the EU steel sector is nowadays a dynamic, innovative and customer-oriented industry. The international competitiveness of European steel producers is based on continuous innovation, both of products and of production processes. From an Industrial Policy point of view, the steel industry's capacity to develop new, special properties and high-quality steel products provides a competitive edge globally. Therefore, having a strong and highly performing steel sector is of strategic importance for the EU economy.

Compared to peak output, there are currently 30-40 million tonnes of unused crude steel production capacity in the EU. As from the second half of 2011, several steelmakers in the EU took decisions to cut output in response to low demand for and prices of steel. Temporary stoppages at steel mills took place in several Member States. Other steel mills were abandoned or ordered to close for various reasons.

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1 EU27: 1.293 tonne CO2/tonne of steel; Japan/Korea: 1.9 tonne CO2/tonne of steel; China: 2.1 tonne CO2/tonne of steel; Russia: 2.63 tonne CO2/tonne of steel; N. America: 1.48 tonne CO2/tonne of steel (source: World Steel Association)

2 More than 500 million tonnes. "EXCESS CAPACITY IN THE GLOBAL STEEL INDUSTRY" DSTI/SU/SC(2012)15 73rd OECD Steel Committee Meeting Paris, 6-7 December 2012

To tackle unused capacities, special attention should be given on high-grade speciality steels for sectors such as: aerospace; offshore renewables and; nuclear, which are all vital sectors for growth. In this context, diversification to new product markets is particularly important as well as the establishment of a strategic and close relationship between steel producers and users.

In this context, the Vice- President of the European Commission, Commissioner for Industry and Entrepreneurship, Antonio Tajani, in co-operation with the Commissioner for Employment and Social Affairs, László Andor, set-up in July 2012 a Level Roundtable (LHR)High-level Round Table on the future of the European Steel Industry. The round table was intended as a platform for dialogue between the Commissioners for industry and employment, industry chief executives and trade unions. Two observers from the European Parliament, ITRE and EMPL committees, also participated at the meetings. Member States[3] were also invited to participate as observers during the later stages, to express their views on the main challenges that the steel industry is facing. Each participant provided an oral or written input into the discussions.

The objective was to identify the main factors affecting the competitiveness of the EU steel industry and to develop concrete recommendations to the Commission and to the Member States aiming to maintain the competitiveness of the steel sector in a long-term perspective.

The recommendations as such are not endorsed by the Commission but will provide an input to and a basis for the preparation of a European long-term policy strategy (Action Plan for the European Steel Industry - APS). Equally, the participation of the European Parliament and Member States does not prejudge the position of the EP and/or the Council on the Commission's communication (APS).

The HLR on the future of the European Steel Industry process was composed of a two-level structure:

- the HLR, lending political visibility and authority,

- the "Sherpa" group, responsible for preparing the input to the HLR.

[3] The selection of the Member States was decided on an objective criterion of 2% relating to their share of EU 27 crude steel output and included Austria, Belgium, Czech Republic, Germany, Spain, Finland, Luxemburg, Netherlands, France, Italy, Poland, Romania, Sweden, Slovakia and United Kingdom

Three HLR meetings were held up until February 2013:

- The first Round Table took place on 19 September 2012 and focused on the identification of the main competitiveness challenges the European steel sector is facing.

- The second Round Table took place on 6 December 2012 and focused on identifying policy recommendations that would later feed into the Action Plan for the Steel Industry.

- The third Round Table took place on 12 February 2013 and focused on approving specific policy recommendations for the Commission.

## 2. Main competitiveness challenges faced by the steel sector and HLR recommendations

The High-level Round Table (HLR) on the European Steel Industry identified several main competitiveness challenges faced by the steel sector and proposed recommendations.

### 2.1 EU demand-side measures

Steel demand depends on the output of a few key steel-using industries – the construction, structural steelwork and automotive sectors account for a combined share of approximately 50% steel demand in the EU.

The construction and the automotive sectors are among those hit hardest by the economic crisis in the EU. The construction sector still does not show any signs of significant improvement as the activity continues to be affected by austerity measures and tight credit conditions. In October 2012, building activity was still around 18% below its pre-crisis level (first quarter of 2008). In the automotive sector, new registrations of passenger cars in the EU-27 fell by -8.2% in 2012 (year-on-year) and registrations of commercial vehicles showed a -11.4% decrease from January to November 2012.

A competitive European steel industry forms the backbone of development and value creation for many major industrial sectors beyond those for automotive and construction, such as the mechanical engineering and energy sectors. Thus, the steel industry is of strategic importance for the wider EU economy, and it is in the interest of the whole European Union to safeguard the activities that make up its industrial fabric and to ensure the security of steel supply through domestic production[4].

Current volatility of demand and the problem of unused capacities could be reduced by successful implementation of initiatives at the EU and Member States level that are conceived to stimulate recovery in the above key sectors. In general, more growth-oriented measures will stimulate the consumption of steel, especially measures supporting the transition to a low-carbon economy, such as the development of the renewable energy sector, public transport infrastructures and the Trans-European Networks.

[4] Joint Motion for a Resolution on the EU steel industry (2012/2833(RSP))

Several MS are facing illegal (not registered, without VAT) intra-EU exports of particular steel products (for example steel rods) which is harmful to some manufacturers and Member States budgets.

**Recommendation**

- The HLR welcomes the EU-wide initiatives aimed to promote the key steel-using sectors, specifically of the initiative 'CARS 2020[5]' and 'Sustainable Construction[6]', noting that a full recognition of the steel-specific properties within these initiatives and their full implementation has the potential to stimulate economic recovery of the steel sector and calls upon the European institutions to take this into account when implementing these initiatives. The HLG recommends a better coordination between the existing High Level Groups, especially with CARS 2020 and "Sustainable construction".

- The HLR encourages the EC and other relevant EU institutions to further cooperate with the interested steel sector representatives and MS concerned in eliminating the illegal intra-EU exports of particular steel products.

- The HLR request the Commission to establish in depth steel market analysis instruments, in cooperation with industry, trade unions and Member States. Such instruments may allow the EU to precisely know and anticipate EU and world' steel demand and supply.

- The HLR calls upon the Commission and Member States to take further steps supporting steel demand through an active transition to a low carbon economy especially based on the development of renewable energy sector and public transport infrastructures.

5 COM (2012) 636 final
6 COM (2012) 433 final

## 2.2 Trade Policy and International competition

*Protectionism and unfair trade practices by third countries*

The existence of protectionism worldwide- creates distortion internationally both on the markets for finished steel and of those for the main steel-making raw materials. Over the past years, the OECD steel committee has periodically drawn attention to the proliferation of trade barriers on the international steel market, notably in the form of non-tariff barriers. According to industry's estimates, around 65% of the steel traded globally is subject to some sort of trade-restrictive measures. Moreover, direct or indirect subsidies to the domestic steel industry in some third countries, which could exacerbate the distortions on the global steel market, have been noticed.

The challenge is to ensure a level playing field and to address asymmetries in terms of market access. Negotiations of Free Trade Agreements (FTA) are currently the key instruments in this regard.

Special attention should be given to the full recognition of social and environmental dumping as unfair trade practices and enforcing the respect of core labour rights by Europe's trade partners, notably in the context of WTO and FTA negotiations.

**Recommendations**

- The HLR calls upon the Commission to continue to pursue its trade liberalisation agenda through the negotiation of FTAs, with a view to the elimination or substantial reduction of tariffs and non-tariff barriers on third-country markets, a sustainable access to raw materials for the EU industry, as well as an enhanced promotion of international standards for steel products. It welcomes the EU's inclusion in trade agreements of provisions on sustainable development issues of importance in a trade context, including the respect of internationally agreed environmental and labour rules and standards. FTAs should be concluded in a spirit of overall reciprocity and mutual benefit and negotiations should be preceded by a comprehensive impact assessment.

- The HLR underlines that EU trade policy needs to take full account of the importance of maintaining a strong and competitive manufacturing base in the EU. Pursuit of the EU's industrial trade interests must continue to be robust.

- Faced with the WTO members that are not compliant with its rules, the EU should use all available tools at its disposal. The EU and Member States should develop and maintain a bilateral dialogue with producer countries to try to resolve trade problems as soon as they are known. However when diplomatic approaches are insufficient the EU should consider recourse to legal action and thus appeal to the dispute settlement body of the WTO. In this context, the HLR welcomes recent Commission proposition regarding antidumping defensive measures on some types of steel products. The HLR recommends to the Commission to remain vigilant and to adopt new measures whenever the injury to the European industry will be established.

- In response to unfair competitive practices, the EU should not hesitate to use its trade defence instruments. The HLR stresses the fact that the EU has implemented a technical approach of the Trade Defence Instruments (TDI), in accordance with WTO rules. It notes that they are WTO+ unlike those applied by other trading partners. The HLR is in favour of a reform of the instruments that would avoid any weakening of TDI and strengthen them whenever necessary. Therefore, the HLR encourages the Commission to keep TDI effective and transparent without weakening the current legal framework. The effectiveness of TDI must be ensured against unfairly traded imports, and they must be applied with determination.

- In addition to ex-ante impact assessment on the trade negotiation mandates, each trade agreement (in particular a FTA) should be preceded after the negotiation stage by a comprehensive analysis to optimise the impact FTAs have on EU industry and on the EU economy. The Commission must maintain a high level of requirements with regard to disciplines on export restrictions of raw materials. It must also pay a particular attention to the importance of maintaining in Europe of a powerful industrial base when negotiating bilateral trade agreements. It should keep in mind the need both to maintain and find alternatives to the sourcing of raw materials, while preserving the competitiveness of industry, including steel-using industries such as the automotive industry.

- Having in mind the ongoing work on granting China a Market Economy Status, the HLR underlines the importance of ensuring that this question is assessed in line with the relevant technical criteria. The HLR underlines that this country currently complies with only one of the five technical criteria required, and has to further progress towards a genuine market economy.

- The HLR notes that the Commission has decided not to prolong the steel-import licence system beyond December 2012. It invites the Commission to review the situation of the European steel industry frequently. Furthermore, the HLR encourages the Commission to provide timely and frequent reports on steel imports from non-EU countries and to intensify its dialogue with our main trading partners in the framework of the Steel Contact Groups.

- The HLR asks the Commission to assess the feasibility of introducing a quality certification for steel-using products.

## 2.3 Raw materials

*Availability of raw materials in the EU, restrictions on access to raw materials outside the EU and volatility of raw materials prices*

EU steel production depends on the imports of primary raw materials such as iron ore and non-ferrous metals. Trade restrictions applied by third countries world-wide create a lack of transparency and increase uncertainty as to the availability and the price of these raw materials. Implementing the EU Raw Materials Initiative (RMI)[7] is a key element in removing export restrictions, including export duties, through the negotiation of new disciplines in bilateral FTA negotiations. When disciplines exist, the enforcement activities of the Commission are very important.

Furthermore, around 70% of the sea-borne trade with the iron ore market is controlled by only three companies, rendering the respect of competition rules essential to the proper functioning of the market.

The steel industry is facing a shortage in the availability of steel scrap which limits its potential to increase recycling. The obstacles to the accessibility of scrap include: the inefficient functioning of recycling markets, the growing problem of illegal exports of scrap from the EU, and constraints on scrap exports imposed by third countries.

[7] COM(2011) 25 final

**Recommendations**

- The HLR calls upon the Commission to implement the Raw Materials Initiative and to continue to tackle the different kinds of export restrictions on raw materials through negotiations and, where appropriate, enforcement activities.

- In order to ensure the competitive functioning of the raw materials' market, the HLR invites the Commission to closely monitor observed shortages in the sector. This element should also be taken into account in the preparation of the Strategic Implementation Plan (SIP) by the European Innovation Partnership (EIP) on Raw Materials[8].

- In order to ensure the efficient functioning of the internal secondary raw materials market, the HLR considers it necessary to thoroughly analyse scrap trade outside the EU, while preserving open trade.

- In line with the regulation on end of waste of scrap, the HLR calls upon the Commission to implement a scheme for monitoring of the development of internal market conditions for iron and steel scrap, with the objective to identify any adverse effects on internal EU recycling markets for iron and steel scrap[9].

- The Commission should also study the illegal export of life-end vehicles and other scrap-related products and consider, where possible, necessary proposals to mitigate this phenomenon.

- The HLR invites the Commission to explore, in the context of the European Partnership on Raw Materials, all relevant actions regarding the recycling of raw materials and with special emphasis on the boundary conditions which would allow society to benefit from the potential steel can offer beyond mere recycling rates, e.g. in terms of the recyclability of materials and design for recycling.

- The HLR calls upon the Commission to consider the case of blast furnace coke for inclusion into the list of critical raw materials.

- The HLR calls upon the European Parliament, the Council and the Commission to provide for increased transparency in raw material derivative markets and in this respect highlights the proposals of the European Parliament on Article 59 of the Markets in Financial Instruments Directive.

[8] COM (2012) 82 final

[9] Regulation EU/333/2011

## 2.4 Combined effects of policies

### *2.4.1 Extra costs due to legislation*

Producers in the EU are facing unilateral administrative burdens and costs associated with implementation of comparatively stringent regulation, both at the EU and Member States levels. The combined effects of regulatory burdens can impose additional costs on business operations, or affect the enterprises' capacity to innovate and take investment decisions, which – if competitors are not operating under the same conditions – may lead to losses in market shares.

Low levels of investment, due to the absence of the right framework conditions, would undermine the long-term competitiveness of the steel sector and increase the risk of relocation. Since the production of steel represents the upstream step in the industrial value chain, relocation would also erode the competiveness of the (steel-based) downstream industries.

### *2.4.2 Cumulative effects of policy instruments*

The Commission's Industrial Policy Communication (2010)[10] introduced the concept of competitiveness-proofing, which established the basis for a reinforced analysis of the impacts of new policy proposals on enterprise competitiveness, and also the concept of fitness checks. These could be instrumental in identifying incoherencies and duplication between legislative instruments, both in terms of the objectives pursued and the administrative burdens imposed.

Up until now, no detailed assessment has been carried out on the combined effects of regulation on production costs in the steel sector. However, better regulation does not automatically mean "less regulation". Fitness checks will take into account the economic, social and ecological impacts of regulation on an equal footing.

[10] COM (2010) 614 final

**Recommendations**

- The HLR stresses the importance of high-quality impact assessments carried out by the Commission to obtain realistic results. The cumulative effects of the different pieces of legislation affecting the steel sector should be taken into account in order to have an overall assessment of their economic, social and environmental impact and to identify options for removing undue provisions where considered appropriate.

- Within the overall context of the Commissions' integrated impact assessment approach, the HLR welcomes the idea of competitiveness-proofing as a reinforced analysis of the impacts of new policy proposals on enterprise competitiveness.

- Accordingly, the HLR invites the Commission to launch by the 1st half of 2013 a fitness check for assessing the overall regulatory burden on the steel industry and to ensure that legislation is fit for purpose and proportionate.

## 2.5 Climate change policy

### *2.5.1 Implementation of EU climate policy*

Before the crisis, the EU set what was then considered ambitious targets for greenhouse gas reduction by 2020, with the Emission Trading System (ETS) as the main instrument. The sectors subject to ETS (i.e. energy and manufacturing with the exception of the construction sector) will make the largest contribution towards meeting the EU's 20% reduction target. Sectors subject to the ETS are, on aggregate,bound to reduce by 2020 their carbon emissions by 21% from the level in 2005, compared with 10% for the non-ETS sectors[11]. For steel, that likely means a reduction of around 42% compared to 1990, the Kyoto reference year.

The exact eventual reduction "target" for the steel sector will be will depend on the final allocation under phase 3 (2013-2020). However, it is clear that the steel

[11] This outcome was the result of an economic analysis to minimize the costs for the EU to reach its overall reduction target, recognising cost effective efficiency improvements and structural change in the ETS sectors, including fuel switching and significant industrial changes in the 12 newest Member States

sector has significantly reduced emissions in the period 1990-2005, due to a number of factors: both improvements at individual plants but also significant restructuring, including plant closures.

Non-ETS sectors reduced their emissions by ca.5% in 1990-2005 so their obligation to reduce in the reference period 1990-2005 can be estimated to be ca.15%[12]. The HLR takes note of the flexibility provided for by the ETS, including the use of international credits.

The average levels of CO2 per tonne of finished steel varies across the Member States and significant investments would be necessary to upgrade all the existing plants to the level of best performing installations.

As regards the implementation of the ETS Directive in the third trading period, the main challenges relate to: how the EU's reduction target of 20% of greenhouse gas (GHG) by 2020 will be implemented; how and if the ETS will be changed before 2020 (through structural measures currently under consideration), and the review of the carbon leakage list for the period 2015-2019.

The HLR shares the goal of fighting against climate change and it supports a well-designed ETS. It is in favour of a single, global carbon price or international agreement[13].

The HLR notes the current Commission initiative to temporarily withhold 900 million CO2 certificates from the EU emissions trading market in 2013 to 2015. This will inevitably add to the carbon price in the short term, compared to a scenario without any action. On the other hand, it will increase the value of the surplus of allowances allocated in phase 2 held by the steel sector. However, this is not held by all steel makers. It may marginally increase electricity prices in the early years of the third trading period, while prices may be lower when the allowances are sold towards the end of the period. Carbon prices are currently far below the levels estimated in the 2008 Climate and Energy package.

In the current financial and economic crisis, we need framework conditions that are stable and conducive to growth. Ex-post changes of the emission trading system and our climate targets should be considered in this context.

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[12] Extrapolation based on national inventory submissions to the UNFCCC

[13] Remark by Eurofer: the industry is of the view that the current ETS is not well-designed - the failure to adopt the Kyoto reference year 1990 meant emission reduction efforts 1990-2005 were ignored. Furhtermore, there was failure to adopt achievable benchmarks and failure to provide for full compensation for energy price rises resulting from the ETS.

### *2.5.2 EU climate policy objectives beyond 2020*

The EU lowLow-carbon Roadmap shows the path for reducing the EU's $CO_2$ emissions by 80% by 2050. For the industry sectors, that would mean aggregate reductions of 34% to 40% by 2030 (depending on technology and fossil fuel price assumptions) and of 83% to 87% by 2050. The EU low-carbon Roadmap recognised that very significant investments would be needed to achieve these targets - in addition to the application of more advanced industrial processes and equipment, Carbon Capture and Storage (CCS) in industry would be necessary on a broad scale after 2035.

The current emission-reduction potential is around 10 % with the existing technologies. The level of CO2 emissions of the most efficient steel plants in the EU is approaching the physical limits. At these plants, further significant reductions can only be achieved by developing and deploying breakthrough technologies, possibly combined with CCS. The EU steel industry has developed an intensive research agenda (ULCOS). It is currently in the demonstration phase of the most promising technologies as ULCOS will be running until 2020.

Deployment after 2020 will depend on the technical success of the demonstration projects, their operating costs and benefits as well as public acceptability of CCS and, last but not least, related deployment and operating costs. However, even if the ULCOS technologies proved to be viable, deployment on a broad industrial scale presumes massive investments and so cannot be expected before around 2030. Under certain assumptions[14], it can be estimated that the reductions of specific CO2 emissions between 2010 and 2030 range from 14% to 21% under different scenarios but based on using the existing technologies. It might not be technically feasible for the sector to meet the EU Low-carbon Roadmap targets of 34% to 40% by 2030.

In this context it should be noted that the Commission's Energy Roadmap 2050 concludes that decarbonisation of the energy market is possible – and can be less costly than current policies in the long-run.

[14] http://publications.jrc.ec.europa.eu/repository/handle/111111111/26669

**Recommendations**

- The HLR considers that reducing CO2 emissions generated from steel production creates economic pressure on EU-based producers and this must be duly taken into account when adopting regulatory measures.

- The HLR notes that steel can be an enabling material in many areas of a low-carbon economy (fossil fuel power plants, offshore wind-power plants, e-motors, transformers), at a time when demand from traditional sectors is low.

- The HLR considers that there is a need for setting up a European mechanism to monitor data on CO2 emissions and energy efficiency of steel plants (possibly based on NIMs, co-ordinated by the Commission and Member States.

- The HLR invites the Commission to consider establishing a mechanism to provide support for investment in development and deployment of low-carbon technologies to lower the risk for developing new technologies and accelerating their commercial adoption. Such a scheme could be established at European or national level and be funded by earmarked parts of Member States' revenues from the sale of ETS allowances.

- The European ETS is currently the principal instrument being employed in the context of the EU climate objectives for 2020. Its design and targets has had impacts on the steel industry’s economic situation and has caused concerns about future competitiveness. Nonetheless, it has also provided incentives to reduce GHG emissions. The HLR invites the Commission to explore new ideas and opportunities for improving the policy design and targets, bearing in mind sector-specific technology and economic considerations and taking into account global competitiveness issues.

- The HLR calls upon the Commission to start urgently developing the post-2020 climate policy framework, including the most appropriate manner to deal with eventual risks of carbon and investment leakage still existing after 2020 in the steel and other sectors. In the forthcoming discussions on emissions reductions targets, post-2020 technological considerations should be taken into account alongside other factors, notably the need for effective policies. The HLR is of the position that post-2020 energy-climate policy framework should be related to a progress in the global climate agreement.

- The HLR underlines the importance of internationally recognised standards in supporting international action on climate change and encourages the Commission to speed up finalisation of standards for assessing the GHG emissions in energy-intensive sectors.

- The HLR underlines that one of the objectives of an international agreement is to improve the level playing field for internationally traded and competing goods, and to ensure objective monitoring and enforceability. The EU's negotiation positions and strategies should reflect this.

## 2.6 Energy Policy

*Energy costs for EU steel producers: functioning of the energy market and cost effects of climate/energy policy*

End-prices of electricity in the EU are on average higher than those in many of its major trading partners. Directly comparable figures for different countries are difficult to obtain but indications are that average electricity prices for EU industry are twice those in the USA[15] and substantially higher than those in many of the major developing economies. This being said, electricity costs for industrial producers differ across Member States. Energy prices are influenced by a series of factors, including the underlying fuel costs, elements of price regulation, network tariffs, taxes and levies (most of which are determined at the level of Member States). The implementation of the ETS and of energy policies, notably renewables, also has an impact on the price of electricity, although these factors are not the most important ones given present levels of the ETS price and of renewable energy in the power-generation mix. These developments will have to be carefully monitored however, and appropriate measures envisaged in order mitigating possible negative consequences for the steel industry.

The Commission's Energy Roadmap 2050 acknowledges that electricity prices may increase at least until 2030, both with and without more ambitious climate and energy policies. Nevertheless, as stated in previous EU policy documents, the completion of the internal energy market will play a positive role towards affordable and internationally competitive access to energy.

[15] International Energy Agency

In addition, continued diversification of supply routes and supply countries for fossil fuels and the emergence of new energy sources – e.g. shale gas – could have a positive impact on energy prices and the security of supply if they can develop within the EU.

Long-term energy contracts, especially for EU energy-intensive industries such as the steel sector, which have an investment cycle of 15-20 years, are an important element for ensuring their global competitiveness. They can provide predictability to both buyers and sellers and sufficient guarantees about the return on investment by the steel producer. But they should not give rise to national subsidisation, should not prevent the opening of energy markets and at the same time not lead to market foreclosure hindering alternative suppliers from competing on the energy markets.

**Recommendations**

- The HLR invites the Commission to consider how European energy prices can become internationally competitive, particularly for energy-intensive industries.

- The HLR is of the opinion that completing the EU internal energy market is a key to ensure affordable and internationally competitive energy prices in the long term.

- The HLR considers that the cost-efficiency of support schemes for Renewable Energy Sources (RES) in Member States must improve and that in general RES should be better integrated into the energy market as its generations costs continue to come down. The HLR welcomes the initiative of the Commission to issue guidance on RES schemes in 2013.

- In order to make the best possible use of public money in a time of severe budget constraints, the HLR encourages the EU and national authorities to ensure complementarities between funding programmes for alternative and complementary energy sources, including constant monitoring of developments impacting competitiveness, such as shale gas.

- The HLR invites the Commission (in co-operation with industry) to publish an annual monitoring report which compares electricity prices, and possibly other energy prices, in the EU and other major economies.

- The HLR suggests that the Commission examine further under which conditions to allow a reduction of or exemption for energy-intensive industries from renewable and network levies and tariffs.

- The HLR considers that there is a need to have a clear guidance from the Commission on conditions to conclude long-term supply contracts between industrial consumers and power providers.

- The HLR invites the Commission to analyse the impact of the ETS on electricity prices in the EU and propose, if appropriate, corrective measures.

## 2.7 Environmental policy

*EU Resource efficiency objectives*

Steel is fully recyclable without loss of quality. By-products of steelmaking (e.g. slag) are almost fully utilised.

With regards to the EU2020 flagship initiative on Resource Efficiency, the steel industry is well positioned to benefit from an increased focus on: a life-cycle approach; an increase in recycling rates, and better use of by-products. At the same time, the implementation of resource-efficiency targets may affect the costs of primary raw materials and in particular the competitiveness of resource-intensive industries exposed to international competition.

The main challenges relate to options and instruments in implementing the resource-efficiency objectives. Of particular sensitivity are the options for taxation and the introduction of absolute caps on the use of primary raw materials (e.g. 50% reduction in the use of primary metals by 2050 as mentioned in a recent study).

**Recommendations**

- The HLR invites the Commission to ensure that legislation on industrial emissions and promoting the general application of 'Best Available Techniques' and, where possible, the uptake of emerging innovative technologies, processes and services, be duly implemented, whilst considering the need to avoid competitive distortions in the EU market.

- The HLR invites the Commission to ensure that the legislation in this field is comprehensive and consistent. It is essential that the environmental policy continues to recognise the importance of setting

targets which are economically and technically viable and set sufficiently in advance to allow for new investments to be done in Europe in the steel sector.

- The HLR recalls that significant contributions of the steel industry to political objectives such as resource efficiency, energy efficiency or emission abatement become visible only when analysed along value chains and multiple life cycles. The H-LTR therefore calls upon the Commission to integrate such net approaches into its policy proposals.

- The HLR underlines that EU Environmental Policy should be fully integrated with the existing EU policies, as well as the definition thereof, whilst continuing to ensure coherence across priorities.

- The HLR recalls that resource consumption is a cost to industry. It has been and is in its own interest to reduce consumption and it is doing so wherever possible. In order to reduce the risk of putting the sector into an even more unfavourable position, it is important to refrain from setting absolute caps, such as on metals consumption (20% by 2020, 50% by 2050), without due consideration of its implications for the competitiveness of the industries.

- The HLR invites the EIB to take into consideration the request for financial assistance for technical projects that steel companies undertake in order to comply with BAT conclusions and also with more stringent national regulations. Voluntary measures, which may anticipate the schedule to be later defined by European legislation, in order to reach the best environmental performance of the production site, should also be considered.

- The HLR calls upon the Commission to support the maximum exploitation of the steel industry's resource-efficiency potential by implementing, without delay and with the objective to provide a legally certain and unobstructed market access for by-products, the relevant provision on by-products of the Waste Framework Directive. [Article 5 of Directive 2008/98/EC]

## 2.8 Employment policy

### *2.8.1 Skills shortage*

The introduction and dissemination of improved technology throughout the EU will continue to be a key factor in improving performance. The steel industry is faced with a growing problem of skills shortage in certain areas of expertise. The number of graduates in subjects that are relevant to the sector is falling, whereas at the same time the average age of the workforce is increasing, with a significant percentage of professionals likely to retire over the next 5-10 years. The sector is also experiencing a rise in temporary workers, which makes it difficult to transfer essential skills and know-how.

The decline of a productive workforce implies an irreversible loss of core expertise in the steel industry. The steel industry is also confronted with an 'image problem', meaning it is comparatively less attractive for potential employees.

Health and safety is a priority for steel companies. Nevertheless, the situation can be different from company-to-company and in some cases best practices may not be applied.

The challenge is to ensure a wider use of best practices and of tools aimed at anticipating the future skills needs and promoting the upgrade of skills (e.g. life-long learning).

### *2.8.2 Anticipation and management of change*

The economic slowdown and weak demand in Europe creates a situation of unused capacities, at least at the EU level. This situation might imply the need for adaptation of capacities. It is necessary to determine what in this situation relates to the current economic low point and what to a more structural situation of the sector. On that basis, identifying the right instruments as well as measures at the company level, could help soften the social impacts of possible structural adaptations in the future. Specific measures have also to be put in place to support cyclical adjustments and ensure that the future of the steel industry in Europe is not threatened.

Restructuring, when necessary, should not be resisted, but widely recognised good practices should be followed in order to minimise its social impacts and to ensure that the restructuring is managed in a socially responsible way. Workers' participation, including the respect of information and consultation rights, both at national and European levels, is also a key instrument in this respect.

The EU Cohesion Policy, in particular the European Regional Development Fund (ERDF), aims at supporting the development and structural adjustment of regional economies, including the conversion of declining industrial regions. Accordingly, the HLR takes note that this is an important tool to support the restructuring efforts of Member States and regions.

**Recommendations**

The HLR acknowledges that the best way to attract workers in the steel industry is to promote quality and stable jobs.

The HLR supports the development of active training and life-long-learning policies. Special attention should be given to the transfer of know-how and the greening of the Technical Vocational Education and Training such as supported by the GT-VET project[16].

The HLR invites the Commission to explore policy actions that would help employees affected by capacity closures at steel plants.

The possible actions may include:

- supporting creation of an appropriately funded and resourced European Skills Council, which would bring together existing national organisations conducting research on skills and employment, employers' and workers' representatives at European and national levels and organisations of education and training providers;

- encouraging the use of the European Social Fund (ESF) for workers' retraining and re-skilling in the new financial perspective of the Structural Funds;

- launching an inter-services task force to investigate and follow up each case of plant closure or significant down-sizing;

[16] Sustainable Training Module for the European Steel Industry

- encouraging the Member States to keep the European Globalisation Adjustment Fund (EGF) after 2013 and supporting its change to a rather ex-ante instrument;

- encouraging Member States to promote the development of temporary measures with public support in order to handle cyclical adjustments;

- encouraging the Member States to make use of labour flexibility schemes and their co-financing by the ESF in support of the suppliers who might need additional time to find new clients following a closure/down-sizing of a plant;

- identifying good practice and promoting an anticipative approach in restructuring, in consultation with representatives of the steel producing regions, employment authorities and the sector's stakeholders;

- supporting Member States in implementation of structural funds with a sectorial focus, especially on energy-intensive sectors;

- identifying, for Member States with serious budget constraints, the possibility of using special co-financing rules and decreased own contribution.

## 2.9 R&D, innovation

At the EU level, the steel industry has a focused strategy for supporting steel research with a unique, three-fold complementary research instrument, comprising: the Framework Programmes (FP); the Research Fund for Coal and Steel (RFCS) programme, and the Steel Technology Platform (ESTEP). Recently, the steel industry with other process industries submitted under Horizon 2020, a proposal for a new Public Private Partnership (PPP) called “Sustainable Process Industry through Resource and Energy Efficiency" (SPIRE) (budget: about 20-25 M EUR/year only for the steel part).

Product- and process-related innovations and the link between research, innovation and industrial application is one of the main strengths of the EU steel industry. The RFCS proved to be a very effective tool in providing a targeted support to process and product innovations. On the other hand, the number of projects co-funded from the R&D framework programme has been rather low.

With regard to the EU R&D instruments, the challenge is to reinforce the link between the EU's and steel industry's R&D agenda, given the estimated costs of demonstration and deployment of new technologies of about 55-75 billion EUR. It is therefore important to explore all potential instruments, including Horizon 2020 and the RFCS, as well as others such as NER 300, further recovery packages, EIB related opportunities etc. In this context, all relevant funding sources, public and private, should be pooled.

A further challenge is to ensure that the steel industry will be able to secure the returns from its R&D and to transform its technology leadership into competitive advantage.

In this context, it is worth noting that Structural Funds support to research and innovation will be largely preconditioned through Research and Innovation Strategies for Smart Specialisation (RIS3), which Member States and Regions will have to draw up in order to receive Structural Funds support for research and innovation investments. Such strategies should aim at industrial and renewal and economic transformation through targeted innovation investments. The RIS3 approach includes assessing and taking into consideration the situation and potential of traditional and declining industries with a view to innovate and diversify the regional economy.

**Recommendations**

- The HLR recognises that R&D is essential for the competitiveness of the steel industry. When targeted at proven market failures that prevent their development, public support for these activities could play a key role for pioneering new (often high-risk) technologies and for the cross-fertilisation of knowledge between different actors.

- Given the importance of the sector for the EU economy, increasing international competition in technological leadership and the high number of steel companies in the EU, the HLR invites the Commission to give its full support for R&D, demonstration and deployment of new technologies, while not leading to undue distortions of competition, in particular as regards activities that are very close to the market.

- The HLR invites the Commission to explore further the possibility of incentives to increase efforts in terms of R&D for cleaner, more resource- and energy-efficient technologies and to encourage companies to invest in Best Available Techniques (BAT).

- The HLR underlines the importance of recognising ULCOS and it urges the Commission to take the necessary preceding steps to ensure that the most advanced technologies of ULCOS be urgently moved into an industrial demonstration phase. It is also of the utmost importance to give high priority and adequate funding, in the framework of Horizon 2020, to initiatives such as the PPP SPIRE and EMIRI (European Material Industries Research and Innovation), when in accordance with applicable state aid rules.

## 3. Follow-up

The HLR will continue to hold further meetings in the future in order to monitor the implementation of the Steel Action Plan (SAP). Its next meeting will be organized in September 2013, after the adoption of SAP.