

## OPINIONS

## COMMITTEE OF THE REGIONS

118TH PLENARY SESSION, 15-16 JUNE 2016

**Opinion of the European Committee of the Regions — ‘Steel: Preserving sustainable jobs and growth in Europe’**

(2017/C 017/04)

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**GENERAL COMMENTS**

THE EUROPEAN COMMITTEE OF THE REGIONS,

**Importance and situation of the EU steel sector**

1. stresses that the EU steel sector has played and continues to play a vital role in the European integration process and is one of the key foundations of prosperity, value creation, investment and employment in Europe. With 330 000 employees and 500 production sites in 23 Member States, it is one of the EU's key strategic sectors. In 2014, the sector produced some 169 million tonnes of steel, representing 10 % of global output, and generated a total turnover of EUR 166 billion, equivalent to 1,3 % of the EU's GDP;
2. highlights that, despite the reduction in production and jobs over recent decades, the steel industry remains a key factor in reindustrialising Europe. The objective set out in the Commission communication of 22 January 2014 ‘For a European Industrial Renaissance’ of increasing industry's contribution to GDP to 20 % by 2020 is achievable only with a competitive steel industry;
3. highlights the close economic ties between the steel industry and upstream and downstream sectors. Together with suppliers such as the mining and energy sectors, transport networks and service providers, and customers such as the metal industry, vehicle manufacturing, the engineering industry and construction, the steel industry forms broad value creation networks and clusters;
4. firmly stresses that the future development of the steel industry has a direct and indirect impact on local and regional development and that a competitive and sustainable steel industry is a prerequisite for economic recovery and growth in numerous regions across Europe; notes that the steel sector is also an important source of indirect employment, since it plays a significant role for many other industrial sectors;
5. draws attention to the fact that the European steel industry forms an integral part of international raw material, procurement and sales markets, and as such relies on fair competition;
6. highlights that firms in the steel industry are energy-intensive per se and that energy costs represent some 40 % of operating costs. The sector therefore depends on an affordable and secure energy supply;

7. highlights the steel industry's contribution to the development of energy transition and climate protection. For example, innovative steel products are essential for constructing wind turbines, highly efficient power plants and electric vehicles. Although steel manufacture is a major source of CO<sub>2</sub>, innovative steel products save six times the amount of CO<sub>2</sub> that their manufacture generates;
8. notes that the steel industry is of strategic importance for rail infrastructure across the European continent and also plays a part in the development of local rail transport networks, which offer a valid way to relieve road transport congestion, above all when it comes to improving quality of life and the environment in metropolitan areas;
9. stresses that Europe-based steel producers must make their production as cost-effective and resource-efficient as possible and maintain state-of-the-art technology through continuous investment. The long-term competitiveness depends also on their ability to develop breakthrough technologies in areas such as, for example, energy efficiency. However, it is equally important that the EU and its Member States always consider the impact of their decisions on the national and international competitiveness of the steel sector and the long-term economic impact;
10. notes that in order to secure its survival, the steel industry must continue to demonstrate that it is ready to face the challenges of the future through innovation and good environmental performance. This includes, for example, actively contributing to environmental and climate protection, but also consistently applying technical standards in the field of the environment and climate change policy when reinvesting;
11. draws attention to the high social standards in the European steel industry and its climate and environmental protection efforts;
12. notes that recycling steel saves raw materials, energy and greenhouse gas emissions and strengthens the circular economy. In particular it should be noted that steel is a fully recyclable material. The reuse and recycling of steel should be further developed in view of the objective of creating a competitive and sustainable circular economy and of the fact that the EU has a positive balance of trade in scrap metal. The development of new steel grades, ferro-alloys, and casting and manufacturing techniques also offer huge market potential;
13. points out that the European steel industry, with the latest technology and its highly-skilled workforce, delivers excellence in its field, with the focus on customer-orientated research and product development. The development of innovative and high-quality products helps to safeguard and increase firms' competitiveness;
14. reiterates that modern steel production relies heavily on the continuous development of a highly skilled workforce with the capacity to find pioneering solutions; notes that the New Skills Agenda will make the case for continued investments in people, including reskills and up-skilling policies. It will benefit a broad range of economic sectors, including the steel industry;
15. supports efforts in the European steel industry to ensure greater equality for all staff. For example, the proportion of women employed in the steel sector has increased over the past 10 years and now stands at between 6 % and 25 %, depending on the respective position and EU Member State. In addition, in the past two years steel companies have launched a series of initiatives in various Member States to attract women to the steel sector;
16. notes that the EU steel industry is a leader in health and safety and offers the world's highest standards of industrial hygiene in the workplace. The exchange of best practices for health and safety in the workplace is being discussed in detail at EU level. The EU steel industry is also taking part in an intensive social dialogue at EU level;
17. urges that more emphasis be placed on digital skills and technologies in education and vocational training, in particular apprenticeships, and highlights that the digitalisation of production processes requires employees to have higher skills due to the greater complexity of tasks <sup>(1)</sup>;

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<sup>(1)</sup> CDR 1319/2014 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — EU Quality Framework for anticipation of change and restructuring.

18. highlights that the digitisation of production processes requires employees to have better abstract thinking and problem-solving skills due to the greater complexity of tasks. Staff must also organise their own work and must have excellent interdisciplinary, self-management and communication skills;

19. points out that global overcapacity, periods of low prices, high energy prices, taxes and charges on energy, the upcoming reform of the EU emissions trading scheme, as well as competition-distorting dumping practices by steel producers outside the EU, place an enormous burden on Europe as a steel-producing region. The production of crude steel and worldwide market shares of the European steel sector are in decline, leading to adjustment processes that impact on businesses and employment;

20. notes with concern the devastating social and economic effects on local and regional communities from closures or reductions in iron and steel manufacturing, and the measures needed to support those communities to regenerate and grow;

21. considers a European strategy for the future of the steel industry to be sensible and constructive. In this regard, it is vital that local and regional authorities are included in voting or decision-making processes and that the respective local circumstances and specialisations of firms are taken into account;

22. supports an EU industrial policy geared to maintaining the competitiveness of the steel industry and a competitive environment, and that will enable existing steel plants and jobs to be safeguarded and further developed;

23. shares the Commission's view, as set out in its 2050 energy roadmap, that lowering the CO<sub>2</sub> emissions of the energy sector and a scenario with a high proportion of energy from renewable sources may be less costly in the long run than pressing ahead with the current policy, and that the costs of nuclear energy and energy from fossil fuels are likely to continue to rise over time, whereas the costs associated with renewable energies may fall; at the same time, acknowledges in this connection Member States' efforts to provide for appropriate compensation for the disproportionate financial costs incurred by the steel industry exposed to international competition, as part of the development of renewable energies; however, urges the European level to ensure that national compensation mechanisms, particularly in the area of aid, do not distort competition in the single market;

24. points out the need to help communities that rely heavily on steel to increase the breadth of their economies before restructuring measures have to be taken; diversification of the local economic fabric should aim in particular to create synergies between sustainable industry and services and could also be promoted through tax breaks;

### **Reform of the EU emissions trading scheme**

25. welcomes the endeavour of the European Council in its conclusions of 23 and 24 October 2014 to strike a balance between the objective of reducing greenhouse gas emissions and that of ensuring the competitiveness of European industry;

26. points out, however, that the European Council's decision to increase the annual reduction factor for maximum emissions allocated to industry from 1,74 % in the third trading period (2013-2020) to 2,20 % in the fourth trading period (2021-2030) while continuing with free-of-charge allocation of emission allowances based on benchmarks may result in a considerable shortfall in allowances and thus in additional burdens for the steel sector, burdens to which competitors in countries without emissions trading are not subject;

27. considers it essential to establish an emission trading scheme at global level to ensure the competitiveness of European businesses and avoid carbon leakage by preventing further increases of the allowances to be auctioned. Further guarantees could take the form of harmonized compensation mechanisms for indirect costs (such as those of electricity) or of benchmarks based upon accurate and up-to-date data;

28. also notes in this regard that the pig iron benchmark for allocating allowances in the steel industry is already 10 % below the physically and technically feasible level in the third trading period (2013-2020); nor is the sinter benchmark determined properly, as it includes pellet plants. Allocations must be based on actual circumstances, taking full account of electricity production from steel industry blast furnace gas, and be adjusted to keep pace with technical developments. Allowances must also be allocated pro-actively over the production process;

29. is pleased to note that the Commission has presented its *Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments* well before the start of the fourth EU emissions trading period;

30. therefore hopes that clarity on the future EU emissions trading framework can be achieved for all stakeholders at an early stage;

31. at the same time, sees the need for intensive coordination and discussion between all stakeholders regarding the reform of the EU emissions trading scheme;

32. nonetheless notes with concern that the Commission's proposal for a directive does not fully satisfy the European Council's wish to safeguard the international competitiveness of industry, as the European steel industry in particular currently faces substantial costs that pose a threat to its existence;

33. calls, therefore, for the proposal for a directive to be substantially revised in the subsequent stages of the legislative process and — while ensuring the effectiveness of EU emissions trading and appropriate burden-sharing among all economic sectors — in particular, for the following measures to be included:

- general waiving of charges for the most efficient plants,
- continuation of incentives to pursue technical development and reduce environmental impact through realistic, and technically and economically achievable, benchmarks based on the most efficient 10 % of plants,
- full account to be taken of BFG (blast furnace gas) emissions from power generation when setting benchmarks,
- no across-the-board reduction of benchmarks; waiving of the correction factor,
- no weakening of cost pass-through to electricity prices for energy-intensive industries; option to pass through all indirect costs while at least reference criteria should be considered at European level so as to avoid distortions in competition within the European single market,
- inclusion of precursors of energy-intensive industries to be included in the rules in order to prevent relocation abroad, and
- adjustment of allocation quantities to reflect changing production levels;

34. believes that offsetting of emissions costs passed through to electricity prices is vital in order to counteract potential carbon leakage. As individual Member States have currently been able to choose different ways of doing this, distortions of competition cannot be ruled out. The European Commission should therefore consider whether in future this offsetting process should be harmonised or allowed at EU level;

35. emphatically welcomes the international community's acceptance for the first time, at the global climate conference in Paris, of a binding commitment under international law to the goal of keeping global warming below 2 °C, and its intention of making serious efforts to limit the increase in global temperature to 1,5 °C. The guiding principle of achieving global GHG emissions neutrality in the second half of this century still needs to be fleshed out, in view of its impact on the development of the production sector. The option still open of developing and reaching an agreement on market mechanisms for global, cost-effective emissions trading would be an opportunity to reduce or avoid future distortions of competition due to climate protection measures;

**EU external trade**

36. recognises the serious threats to the European steel industry posed by lack of a level playing field, unfair foreign trading practices employed by firms and the unequal trade policies of non-EU countries;

37. believes, therefore, that the EU's external trade policy, including its trade defence instruments, is an essential means of safeguarding the global competitiveness of Europe's steel industry and supports the Parliament's call for a general reform of the EU's trade defence instruments in order to remove what are referred to as the 'WTO+ elements' from the EU system and guarantee in particular a level playing field for EU industry with China <sup>(2)</sup>;

38. notes with concern that currently the world steel industry reports 452 m tonnes of excess capacity, and that overcapacity in the Chinese steel industry is repeatedly giving rise to imports at dumping prices in the EU, sometimes via third countries, which without effective EU trade countermeasures pose a direct and indirect threat to the existence of the entire European steel industry, and to many jobs;

39. calls for the establishment of a mechanism to operate in third countries, to monitor the way secondary raw material (scrap) treatment plants are run in the countries of destination, so as to pre-empt exports to third countries whose waste treatment methods are not environmentally sound;

40. calls on the EU Institutions to authorise the Commission to use a non-standard methodology in anti-dumping and anti-subsidy investigations into Chinese imports under Section 15 of the China WTO Accession Protocol until China meets all five EU criteria required to qualify as a market economy. Moreover points out with great concern that the possible granting of market economy status to the People's Republic of China in December 2016 would make effective anti-dumping measures virtually impossible because the method of calculating dumping margins would then change. Highlights at the same time that there is no requirement that WTO members automatically grant China MES in 2016;

41. points out, in this regard, that China currently meets only one of the EU's five criteria for recognition as a market economy. These technical criteria are: business decisions being based on market signals, company accounts kept according to international accounting standards, absence of any appreciable distortion in production costs and in the financial situation of companies stemming from the former non-market economy system, property and insolvency laws that guarantee legal certainty and stability for business operations, and exchange rate conversions at the market rate;

42. therefore urges the Commission, when studying the economic and social impact of market economy status for China, to await the opinions of the economic stakeholders affected and to seek close coordination with other key WTO members such as the United States before making its decision on market economy status;

43. in the event of China being awarded market economy status, calls for the creation of equivalent and effective tools to protect fair trade. In this connection, a solution should also be considered that in future no longer explicitly lists the non-market economy countries in the EU's basic anti-dumping Regulation, but that lays down general rules for non-market economies in the Regulation. The analogue country methodology could be replaced by another methodology, however with the burden of proof regarding the existence of a market economy continuing to fall on the non-market economy countries;

44. in the event of China being awarded market economy status, calls for the creation of equivalent and effective tools to protect fair trade;

45. welcomes the Commission's imposition in February 2016 of provisional anti-dumping duties on imports of cold-rolled flat steel products from Russia and China;

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<sup>(2)</sup> See Resolution of the European Parliament of 12 May 2016 on China's market economy status (2016/2667(RSP)).

46. regrets, however, that in doing so the Commission, in the case of Chinese steel products, applied the 'lesser duty rule', with the result that the provisional anti-dumping duties imposed are lower than the calculated dumping margins;
47. considers that applying this rule does not sufficiently protect the competitiveness of the European steel industry;
48. points out that WTO provisions do not provide for such a rule, nor is it used by other regions such as the United States;
49. considers it important, therefore, to abolish the 'lesser duty rule' when reforming the trade defence instruments, particularly in the case of existing excess capacity;
50. welcomes that the European Commission has, as announced in the action plan, decided on 28 April 2016 to (re-) establish a prior surveillance system for the import of steel products into the EU which will require an import licence for the import of steel products into the EU, serve to anticipate short-term market developments and help the Commission to properly address unfair imports, with the possibility of initiating cases when import trends threaten to cause injury to Union producers;
51. welcomes the Commission's efforts, through the trade defence measures for steel products already in force in the EU, to help enforce the rules of fair global competition and thereby to help safeguard the competitiveness of the European steel industry;
52. nevertheless considers that the EU's anti-dumping procedures take too long, particularly when compared with practice in other WTO Member States, so that they are less effective in protecting the competitiveness of the European steel industry;
53. therefore calls for the option also to be considered of speeding up the EU's anti-dumping procedure if and when the EU's trade defence instruments are reformed;
54. encourages the Commission in its efforts to advance the goal of a global level playing-field through dialogue and negotiation at international level;
55. expects the Council to include chapters on energy and raw materials in every new Free Trade Agreement (FTA) mandate;
56. calls on the Commission to include the CoR, as the institutional representative of European local and regional authorities, in the high-level group on energy-intensive industries set up in May 2015, in order to ensure that the stakeholders already represented take note of the interests and possibilities that exist at regional and local level;

#### **Accompanying measures to safeguard the competitiveness of the EU steel sector**

57. points out that the relevant EU funding programmes for investment in new equipment, R & D, skills and training can make significant contributions to safeguarding competitiveness, compliance with environmental and climate protection standards, and workers' rights in the steel sector;
58. draws attention to the goals of the Research Fund for Coal and Steel (RFCS), as well as the European Structural and Investment Funds (ESIFs), and the European Fund for Strategic Investments (EFSI), which can support research and innovation projects in the steel sector, not least through potential synergy and coordinated action. Points however to the rather limited potential of EFSI for the steel sector as market conditions cannot guarantee an adequate return on investment with the currently low level steel prices. With due consideration for the EU's strict state aid regime for the steel industry, the cooperation of local and regional authorities that have steel-related priorities can also make a valuable contribution;
59. notes how important public investment and the resources of the EU's Horizon 2020 programme are to driving pioneering innovations in the steel industry and to improving the environmental and energy efficiency of the sector;
60. hopes that, given the specific nature of the steel sector, which requires both research and measures of a structural nature, the evaluation of research projects under Horizon 2020 will give more points to those that involve a European Partnership and use Structural Fund resources to secure better integration between the various European programmes;

61. stresses the objective of maintaining the quality and level of employment as part of a more competitive EU steel industry, while acknowledging the importance of the European Globalisation Adjustment Fund (EGF) in providing social support in cases of industrial restructuring involving potential staff cuts, as in situations where more than 500 workers employed by a single company (including suppliers and downstream enterprises) are made redundant, or where many workers from a particular sector lose their jobs in one or more neighbouring regions, this fund could be used to meet up to 60 % of the cost of projects to help workers made redundant find a new job or set up their own business; however, is doubtful whether the maximum annual budget of EUR 150 million for the 2014-2020 period will be enough to meet the challenges involved;

62. points out that the transfer of experience and knowledge to new generations of workers in the EU steel industry already plays a major role and that the skills and industrial know-how of the workforce should be strengthened through targeted education and training;

63. identifies the need to develop and promote resource-efficient circular economy systems at all steel production sites, in order to improve the competitiveness of plants by making more use of by-products and recycled steel; this is also in line with the provision for industrial symbiosis set out in the European Commission's Action Plan for the Circular Economy, increasing the uses for steel processing waste.

Brussels, 15 June 2016.

*The President*  
*of the European Committee of the Regions*  
Markku MARKKULA

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