EU News & Policy Debates

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SAVING EUROPEAN STEEL

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European Commission President Jean-Claude Juncker visits EU embassy in Washington on April 15, 2016. Photo by Yuri Gripas [Yuri Gripas]

Can this son of steel save the industry in Europe?

Policymakers are struggling to find the way forward to preserve a future for the European steel industry, once a bedrock of the bloc's industrial economy, which is currently facing the most serious crisis in its history.

It's become a cliché but one that is worth restating — Europe's reconciliation after World War II was built on the vision of a unified coal and steel industry, working beyond national borders for the continent's prosperity.

Almost seventy years later, a lethal cocktail of low prices and demand, combined with overcapacity in the sector and policies at international and EU levels, threaten to overwhelm a once-proud industry that still employs 360,000 people across Europe.

"The steel industry has problems. Problems we should take seriously," said Jean-Claude Juncker, President of the European Commission, as he addressed MEPs in Strasbourg last week.

The son of a Luxembourg steel worker, Juncker has intimate knowledge of the sector. "Steel isn't just any old industry," he said. "Steelworkers are highly skilled specialists and they deserve our unconditional support," he told Parliament.

Last month the Commission put forward a series of measures to bring European steel back from the brink.

Employment in the steelworks offered working-class men and women honest, skilled and well-paid labour for generations.

The many businesses that would spring up to service them only added to a unique cultural identity in the many steel regions of Europe.

But that local heritage is now struggling to survive. Buffeted by global forces it faces becoming nothing more than a memory, leaving behind a profound sense of loss, unemployment and desperation.

No one knows this better than Juncker himself. He attributes his rise to Prime Minister in Luxembourg and the top job in the Commission to the solidity his father could rely on through steel.

"If my father had had to fear for his job every six months, I would never have seen the inside of a Strasbourg law faculty," he said in 2014.

Crisis

The financial crisis, which itself highlighted the crucial importance of industry and manufacturing rather

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than simply relying on services such as banking, has hit demand for steel.

Worldwide only two-thirds of the steel being produced is actually being used.

Despite this, steel is vital for just about everything Europe uses. Buildings, clothes, cars, drink cans, lamps — all require steel at some point.

A failing steel industry will hit linked sectors such as metal traders or product manufacturers. It could escalate into a full-blown manufacturing crisis, some say.

The industry faces a number of challenges simultaneously.

Demand for steel worldwide has not returned to pre-crisis levels, leading to lower global prices as the EU economy continues to be weighed down with sluggish growth.

Competition

That situation is further exacerbated by China, the world's biggest producer, and its economic slowdown. With its lower domestic demand, the Chinese are exporting their overcapacity – at even lower prices.

Such trade, the European industry argues, is unfair competition. European steel accuses China of not just taking advantage of lower production costs but actually selling its products at a loss – "dumping" them on overseas markets.

Trade instruments, such as higher tariffs on products, exist to protect domestic markets from such practice.

But, as this Special Report will go on to explain, it has not been that simple, with some EU countries blocking moves to strengthen the measures.

There are also fears that the EU will grant China 'market economy status', making it even harder to impose anti-dumping duties.

"Free trade should be fair trade," Juncker told MEPs, "We are now investigating steel products from China to determine whether they were dumped on the market, and we will take other measures if necessary."

Then why not offer national state support to the industry, some wonder? It's not as simple as that with even those governments willing to bailout or subsidies the industry having to negotiate EU state aid rules.

Climate

Another challenge is energy prices, which are compounded by climate change policies.

Steel is an energy-intensive and heavily polluting business. But climate policies have piled up on top of the industry's woes, adding a carbon emission constraint to the sector's already high energy cost structure.

While the industry recognises that times have changed, it argues for less draconian treatment — and lower carbon emissions targets.

The Commission's plan includes speeding up the adoption of tariffs on dumped products, and the ditching of rules that limit duty levels on steel imports.

One eye-grabbing measure is a surveillance mechanism that will be triggered if imports threaten to harm EU producers.

This is supported by EU money channeled through the so-called Junker Investment Plan and Horizon 2020 funds for innovation and research, part of a further push to modernise the industry by 'investing in people'.

The plan also calls for 'focused policies' in competition, energy, emissions trading and the circular economy.

China blames terrorism, economic slowdown for the steel crisis

An international meeting in Brussels over the steel crisis ended in disappointment as China denied dumping its excess production on global markets, and instead blamed terrorism and the economic slowdown for the global steel crisis.

European steelmakers hold artificially cheap Chinese imports responsible for the crisis. The EU has hit some Chinese steel products with antidumping measures – higher tariffs to protect the competitiveness of the EU industry.

Sluggish economies had hit steel demand, which was the "fundamental reason" for more steel being produced than was needed, Assistant Minister Zhang Ji told ministers from 28 countries, and the European Commission, yesterday (18 April).

"Exacerbation of geo-political conflicts and the dissemination of extremism and terrorism further deteriorates the situation," he said at the meeting hosted by the Organisation for Economic Cooperation and Development (OECD).

EU Trade Commissioner Cecilia Malmström gave the Chinese claims about extremism short shrift at a press conference after the talks.

She said, "This is an overcapacity in sheet steel. I don't really see the direct link to terrorism to be honest."

Overcapacity

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The European steel association, Eurofer, says China has a domestic steel overcapacity of around 400 million tonnes, almost three times the total demand in the EU (155 million tonnes).

Ministers from countries representing 95% of global steel production and trade met yesterday in Brussels for crisis talks hosted by the OECD and Belgium.

While China said it would cut its crude steel overcapacity, the talks did not bring the level of agreement hoped for.

"There has been a massive surge in Chinese steel imports that is hitting Europe," Malmström said.

US and Mexican trade representatives at the press conference agreed that Chinese overcapacity had caused huge problems. Mexico has also recently introduced tariffs.

"We don't mind competition but it has to be fair competition," Malmström told reporters. "The EU has very tough rules on state aid and it is important for us to state that governments should not grant subsidies."

Steel represented 3% of EU EGDP and employed 330,000 skilled people, she said. Thousands of jobs have been lost in the EU, she added.

China's Zhang Ji, Mexico's Idelfonso Guajardo Villareal, and the EU's Cecilia Malmström during Monday's press conference in Brussels. [James Crisp]

'Not a single subsidy'

Zhang insisted, "We have never given a single subsidy to exporting steel. It doesn't make any sense for reasonable business people to engage in money-losing trade.

"The Chinese government does not have the resources to afford such huge subsidy, even if we could, the population will not accept it."

Deputy United States Trade Representative Robert Holleyman said limiting any discussion about subsidies to exports missed part of the problem. There were underlying conditions that were not market-driven, he added.

He said that US production had kept in line with domestic demand, while China had "greatly exceeded" its own.

Zhang countered the argument by saying the United States and European Union "are also plagued by overcapacity." He said the US only used 69.8% of its steel capacity while the EU was at 68%.

He pointed to World Steel Association figures showing crude steel output in 2015 was 1.62 billion tons with an average usage rate of 69.7%. Capacity usage had dropped from 73.4%, which showed the crisis was getting worse.

"Blaming each other does no help to resolving problems," he said during a speech before the press conference.

China's steel products were mostly for domestic use, he claimed, and it was a huge market for global steel products. "While everybody is saying that china is the biggest producer of steel in world, china is also the biggest consumer in the world," he said.

Chinese cuts

The problem was not international trade, Zhang said, adding it was wrong to take "frequent trade protectionist measures to restrict imports" .

In the next five years China will further cut its crude steel capacity by 100 million to 150 million tons, leading to 500,000 laid-off workers having to be "resettled". 100 billion yuan had been set aside to resettle those workers.

"This challenge is felt more acutely in China where the total number of steelworkers is three million," he said.

Zhang called for other economies to take measures, according to their development and capabilities, to cut steel production.

Malmström and Holleyman both said their industries had already undergone painful restructuring.

Swift and structural

China is the world's biggest steel producer. It is not an OECD member but was invited to the 'high level symposium' in a bid to agree some broad, if not binding conclusions on how to solve the crisis.

The talks ended in disappointment with countries only able to agree that the overcapacity of steel on the global market needed to be dealt with "in a swift and structural manner", although the crunch talks were hoped to reach broader agreement.

Malmström said the EU wanted to work towards global solutions to the crisis, including a transparency mechanism, and guidelines to minimise market distortion and incentivise market-driven restructuring.

OECD Deputy Secretary-General, and former Prime Minister of Finland, Mari Klviniemi said it was a big step to even discuss these issues but more

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concrete steps were needed.

"We all know that this steel crisis is a global crisis," she said.

Belgium's Deputy Prime Minister and Employment Minister Kris Peeters warned, "Maintaining structural surplus production capacity means everybody loses. There are no winners in a trade war."

Holleyman said the talks were "not an academic exercise". Real pain was being felt by "real workers and real economies."

The news China would cut steel production was welcomed by UK Business Secretary Sajid Javid, who has been criticised for his handling of the crisis in Britain.

India's Tata Steel said that Chinese dumping was one of the main reasons it was selling its British plants, such as Port Talbot in Wales, which could lead to the loss of thousands of jobs.

China has "absolutely recognised that it is a problem of overcapacity in their country", Javid said. "They're committing to do something about it and I think that's a very positive step forward," he said before warning there would be no "overnight solutions" to the crisis.

INTERVIEW

Jude Kirton-Darling MEP: Steel crisis has already cost lives in England


Jude Kirton-Darling, with David Rees of the Regional Welsh Assembly, at the recent steelworkers' protest in Brussels. [EUROFER]

The steel crisis has cost lives in the North East England constituency, MEP Jude Kirton-Darling has said, before launching a blistering attack on the British government for its inaction in the fight to save the industry.

Labour's Kirton-Darling accused the Tories of blocking EU action that could help protect the industry and of increasing the chances of Brexit by lying about EU rules.

Jude Kirton-Darling is a Labour MEP for the North East England constituency. She spoke to EurActiv.com News Editor James Crisp.

You represent the North East of England constituency in the European Parliament. What does the steel industry mean for that region?

I think the best summary of the very deep relationship this region has with the industry is in the song Steel River, by Chris Rea. He comes from Middlesbrough, and grew up on the next street from mine.

Steel River is about the deindustrialisation of the Tees Valley, in the North East. Steel runs through the blood of the North East. It's a coal and steel region like many others across Europe and that brings a cultural identity, as well as a well-paid, skilled job.

But there's been massive restructuring over the last 40 years, starting with the privatisation of British Steel. Many jobs have been lost through automation and unfair trade competition.

But things have obviously got much worse with the steel crisis?

What we are seeing in the steel crisis in Britain is the complete abdication of the role of government in supporting steel industries. The overcapacity steel in China is being dumped on the European market, which is really debilitating.

Other industries have seen state support such as the strategic use of procurement, the reduction of energy costs, there are a lot of tools being used by governments across the EU to even out the crisis – but the UK government has failed to act.

How many steel plants are there in the North East?

Well, there was the second biggest blast furnace in Europe at Redcar. That was closed in October last year with the loss of 2,200 direct jobs. There are several sites, and about 1,400 steelworkers still working in the area.

The loss of Redcar was a colossal blow, and Redcar and the North East of Scotland, which has been hit by the low oil prices, are the top constituencies in the UK for unemployment. A lot of the former workers are really finding it hard to find new jobs.

Initially, there was a second chance

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with some finding work in offshore industry in Scotland, they had the right skill set, but the collapse in the oil price meant they were hit a second time.

What's the social impact of this crisis in your region?

This is an unplanned and violent restructuring of the economy. From October to December last year, we lost 6,000 jobs. It has a whole array of negative impacts.

In the North East we already have the highest unemployment in the country, and very high youth unemployment.

These jobs are well paid jobs on Teesside. They pay a third higher than average wage in the area.

It has an impact on individuals; we've seen a really significant increase in demand for mental health services. We've seen a number of suicides.

We're talking about people who had real pride in what they were doing suddenly suffering a total loss of control. It makes people feel very powerless and that has a deep emotional impact.

Anyone wanting to understand what people are going through should read this blog. It's written by a steelworker's wife and charts the peaks and troughs of having to sign on.

The government could have applied for money from the European Globalisation Adjustment Fund. We've asked three times for the £5 million (€6.27 million) we think we could get from the fund but the British government has consistently blocked the application. It's a slap in the face.

Tata Steel has agreed to sell part of the business.

Yes, Tata Steel's long products business, which has two mills in Teesside, is being sold to Greybull Capital.

That's a private equity company. Those takeovers don't always save jobs

Yes. It's a sign of how deep this crisis is that this feels like good news. They specialise in turning round distressed businesses. The negotiations have been really, really torturous. It will mean pension cuts and pay cuts but there is a glimmer of hope that that part of the business and that several thousand jobs will be saved.

Do you have close links with industry?

I've long been involved in the trade union movement and in 2008 I became the head of the steel sector of the European Metal Workers 'Union

So what is the solution? Is there a solution?

The immediate action we need is a deal at 13 May EU Trade Council on the modernisation of EU trade defence instruments.

The European Commission brought out a proposal in 2013. That was amended. Ever since April 2014, it has been blocked in the Council by a blocking minority of 14 countries lead by the UK.

So you are saying the UK is blocking instruments needed to defend its steel industry against Chinese dumping?

Yes.

But they've blamed this on the EU.

This government has cried crocodile tears over the industry. They have said their hands are tied by EU state aid rules. Business Secretary Sajid Javid told steelworkers in Redcar that, which was deeply, deeply dishonest.

It was only Labour MEPs that exposed how there were other tools and this was an excuse for inaction.

How much influence do you think this could have on the upcoming referendum on EU membership?

Well, if the government tells you the EU is stopping action that could help save your job; you will believe that the EU is doing something bad.

I think it's a dangerous one. It has an effect on people living in steel communities but also on people in Britain more broadly. The Tories used EU rules as a cover for their own national inaction and that is playing out in the Brexit debate. That lie brings in the whole idea of sovereignty. I think that is really dangerous.

But isn't there a risk of protectionism in Europe?

We are not talking about massive levels of protectionism. We're looking for an exemption from the lesser duty in a case of mass dumping from China. A trade tariff might be 12%.

It's about recognising that we are dealing with a planned economy with a five-year plan that continues to bring more overcapacity onto the market.

This is not about protectionism, it's a about fair trade. No markets work without regulation. The current measures are too weak and too restrictive in Europe and everyone is waiting for the UK to adjust its position so we can take proper action.

Do you think that part of the problem is that the UK and the EU in general is on the hook for Chinese investment? [China is co-financing the nuclear power plant at Hinkley Point in the UK).

The government has decided we need massive investment in transport, energy and in infrastructure and that it most comes from outside the UK. Hinkley Point is clearly a good deal for the Chinese. The British taxpayer is a cash cow for the Chinese. Perhaps the counterpart to that deal is that we don't kick up a fuss about the loss of our manufacturing.

This government simply doesn't care or understand manufacturing industries. There's no concept that you need to have a policy framework to support industry.

Steelmakers fear extra costs from ETS reform

Carbon market reform could greatly increase production costs for the steel industry from 2020, a difference the European Commission wants to offset with cheaper energy and carbon capture and sequestration technology.

A blast furnace at the UK's Redcar steelworks. [Archangel12/Flickr]

Since 2005, the European Union's Emissions Trading System (ETS) has demanded that steel producers, like other industry sectors, make efforts to reduce their CO_2 emissions. The steelmaking process, in which iron is fused with the carbon from coking coal, is highly carbon-intensive.

The EU's 437 blast furnaces – or 620 including forges with related activities – are the largest industrial emitters of carbon in the 28-country bloc, producing 160 million of tonnes of CO_2 per year. Steel accounts for an estimated 5% of total global carbon emissions.

But due to the closure of some European blast furnaces, and cutbacks at others, the ETS has been a source of revenue for the industry over the last decade, rather than a financial burden.

This phenomenon has been put down to the economic downturn, and is not limited to the steel sector: similar observations have been made in other carbon-intensive and economically sensitive industries, like cement and petrochemicals.

According to a study published by CE Delft, an environmental consultancy, in March 2016, the steel sector has profited off the back of the carbon market, thanks to the overabundance of quotas available in certain countries, and the increased price at which manufacturers sell their steel, ostensibly to account for their carbon costs.

But the situation varies across the EU. Between 2008 and 2014, French steelmakers did not receive excessive quotas. In fact they had to buy an extra 11 million tonnes, for a total of 136 million tonnes of carbon emissions.

In the United Kingdom, the sector emitted considerably less CO_2 than expected. Not only did it not have to pay for its CO_2 emissions, but it was also able to sell its excess quotas on the carbon market. According to CE Delft's estimates, the British steel industry made around €163 million by selling unused CO_2 quotas over this period.

Costly constraint after 2020

With a more restricted ETS on the horizon, harder times are ahead for the industry. A proposed overhaul of the carbon market, unveiled by the European Commission last July, and currently the subject of heated debate, foresees a year-on-year reduction of the quotas allocated to the EU's carbon-intensive industries. Under this reformed system, free allocation would largely become a thing of the past, with most of the available quotas being auctioned off to the highest bidder.

But a study carried out by Ecofys on behalf of Eurofer, the European Steel Association, found that the sector could be desperately short of carbon quotas from 2020, leading to a steep increase in production costs. This gap would reach 31% of its carbon emissions in 2021 and would rise to 48% by 2030, costing the industry a total of €26.1 billion from 2021 to 2030, according to Eurofer.

This additional cost corresponds to the price of the carbon quotas and to the indirect cost of electricity consumption. In total, the industry estimates that the reformed ETS will increase the cost of producing steel by €28 per tonne.

Yet not everyone agrees with this projection. The NGO Sandbag has disputed Eurofer's figures, saying its prediction of a 5% productivity increase by 2020 is too ambitious, and pointing out that it failed to take into account the surplus of CO_2 quotas the industry currently has, which it could offset against future costs.

CCS still a theoretical solution

At a hearing with the European Parliament's Environment committee on Tuesday (19 April), Climate Commissioner Miguel Arias Cañete stressed that while the European steel industry is undoubtedly in a difficult situation, the main factor is "not the price of carbon in Europe".

"The steel problem is largely down to Chinese steel production, as well as the high cost of energy in the EU, which we are trying to combat with the Energy Union," the Commissioner said.

The Spanish politician added that the European Commission sees the development of carbon capture and sequestration technology (CCS) as a possible solution for the steel industry in the long term. This avenue was explored by the company ArcelorMittal, with the Ulcos project in the French region of Lorraine. The project was abandoned in 2012, although the company insists it is just lying dormant.

At the European level, the support mechanism for CCS projects still exists, in the NER 300 programme, which is, in theory, funded by the sale of carbon quotas. But the programme is in dire straits and most of its projects have been cancelled due to insufficient funds.

Steel industry worried it will be 'collateral damage' of EU's China policy

European steel is worried that the EU will grant China Market Economy Status, sacrificing the industry in return for billions of Chinese investment to revive the bloc's sluggish economy.

Steel wholesaler. Dogguan, China. [Cory Doctorow/Flickr]

China is 'dumping' huge amounts of steel at artificially low prices on global market, worsening the steel crisis that threatens thousands of jobs across the EU.

The country makes about 400 million more tonnes of steel than it needs every year. The EU has seen a 120% surge in Chinese imports since 2013. 7,000 steelworkers have lost their jobs across Europe since the autumn, according to EUROFER, the European Steel association. Since 2008, more than 85,000 jobs have been cut.

The European Commission announced plans last month to speed up trade defence cases against cheap imports from China and urged member states to stop blocking measures that could set higher duties against dumped and subsidised products.

But that is not enough, steelworkers say. They fear the EU will grant China market economy status (MES) at the end of the year as it desperately seeks to secure Chinese cash for its €315 billion flagship investment plan, which aims to kick-start growth in the region.

MES will make it far more difficult to deploy trade defence instruments to protect the industry against cheap Chinese imports.

MES in return of cash for investment

Geert Van Poelvoorde, president of EUROFER, which represents all the steel production in the EU, said yesterday (21 April) he was worried that the huge amounts of Chinese investment would influence the decision.

"We keep saying that market economy status would be devastating for the steel industry and for other industries," he said, stressing that the industry is concerned it will be considered 'collateral damage' by the Commission.

EurActiv.com reported that the European Commission and China have concluded technical work allowing Beijing to start pouring up to €10 billion under the so-called Juncker Plan.

After months of talks between the two sides, the EU and Chinese authorities have agreed that Beijing will contribute to the European Fund for Strategic Investments (EFSI) via its Silk Road Fund, a public fund.

Meanwhile, the European Commission is expected to put forward a proposal on whether to grant market economy status to China by the summer. It must be agreed by EU governments and MEPs before taking effect.

Beijing argues it is due the status, which will make it much more difficult to take anti-dumping measures against cheap imports, 15 years after joining the World Trade Organisation.

However, China is fulfilling just one of the five criteria set by the EU in order to define a market economy.

"In no way China can be considered a market economy," added Van Poelvoorde.

Speaking at the European Steel Day on Thursday (21 April), centre-right MEP Alessia Mosca said an eventual grant would have serious consequences for a number of key European sectors.

She added that the EU should be ready to cooperate with the other partners in a similar situation, such as the United States, and to come up with a common solution that should be consistent with its WTO obligation.

A number of options were presented earlier this year, but before the Commission releases the results of its impact assessment, it is difficult to have a clear picture on the way

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forward.

A public consultation closed on Wednesday (20 April) and the EU executive is currently analysing submissions in order to prepare a high level conference in June to test a few ideas and come up with a final proposal in July, at the earliest.

Britain, France and Germany are among the countries to have asked the Commission to help the steel industry, which is suffering from an import surge from China and collapsing prices.

Nationalisation not an option

Tata Steel has blamed Chinese dumping for the sell-off of its British plants, which the government may have to nationalise.

The UK government announced on Thursday (21 April) that it is willing to take a 25% stake in any rescue of Tata Steel's UK operations.

But Van Poelvoorde said, "We are very clear on this, in a European market economy, you cannot nationalise. When you start doing this you throw away your whole market economy principles."

The European Commission has raised tariffs on some Chinese steel products because the prices are so low it is unfair competition for European steel.

It is investigating other Chinese steel products flooding the market, but Van Poelvoorde said he wanted the probe extended to cover all Chinese imports.

"Of course there are sectors that think that cheap steel is a solution," he said, "but what happens if China stops exporting?"

Communist-ruled China is recognised as a market economy by Russia, Brazil, New Zealand, Switzerland and Australia, with whom Beijing has struck FTAs.

China has all the potential to become more an opportunity than a threat for the European production, Mosca told EurActiv in a recent opinion piece.

"But of prime importance is the maintenance of a mutual understanding of the commercial dynamics that cannot in any way be detrimental to European's interests and productions," she added.

China's new move

On Thursday, China reportedly said it will do more to help its firms shift capacity overseas while keeping tight control on adding new capacity at home.

Reuters reported that a joint statement issued by the central bank and several other government bodies on Thursday said China would "strengthen financing support for enterprises 'going out'", and use loans, export credits and project financing to encourage coal and steel businesses to build capacity abroad.

"I am cautious about China's move to shift overcapacity overseas as this doesn't help, and just replaces exports," said Jiang Feitao, a steel researcher with the China Academy of Social Sciences told Reuters.

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