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From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	*Preparation of the Council ("Competitiveness") of 29 February 2016* Steel industry: Follow-up to the extraordinary Competitiveness Council on 9 November 2015 and the Conference on Energy-Intensive Industries on 15 February 2016 - Presentation by the Commission and the Presidency - Exchange of views

Background

On 9 November 2015, the Luxemburg Presidency organised an extraordinary Competitiveness Council meeting to take stock of the serious challenges faced by the European steel industry, including major global overcapacity in production and resulting closure of steel plants and job losses. The Luxemburg Presidency concluded that concrete actions were needed to ensure the long-term viability of a modern European steel sector as part of a comprehensive approach to create competitive framework conditions for EU industry as a whole. These actions included the launch of bilateral and multilateral dialogues and negotiations with third countries, a constructive approach to the modernisation of Trade Defence Instruments, to make full and timely use of Trade Defence Measures, to make full use of the Investment Plan for Europe and of the revised State Aid rules to support energy-intensive industries, to improve the competitiveness of sectors most at risk of carbon leakage in the context of Emissions Trading Scheme (ETS) reform, the swift implementation of the Energy Union, exploiting the potential of the circular economy, and making best use of available EU instruments and funding.

Since 9 November, the European Commission has followed up on a number of these actions, including the recent announcement of further anti-dumping measures in the steel sector. As part of the follow-up, a special High Level Stakeholders Conference was called on 15 February 2016 (in the context of the ongoing work of the High Level Group on Energy-Intensive Industries), involving social partners, to review the current situation and consider policy actions, including an assessment of the implementation of the 2013 European Steel Action Plan. The conference focused on trade, investments in innovation and competitiveness, the European Fund for Strategic Investments, and the European Commission Circular Economy Package. Participants reiterated the need for concrete actions to safeguard the global competitiveness of European energy-intensive industries. The Presidency would like to highlight three issues in particular that were discussed during the conference:

i) The need to accelerate the introduction of anti-dumping measures to address urgent challenges for industry posed by unfair competition from imports, particularly given the more rapid implementation of such measures by other countries.

ii) The need for more easily accessible support and financial instruments for innovation, pilot projects and new business models for European energy-intensive companies, inter alia the steel sector, in the context of taking further steps towards energy efficiency and the transition towards a low-carbon economy.

iii) The avoidance of regulatory costs – in particular for SMEs – which hamper competitiveness, and in particular, the need to avoid negative effects of ETS reform on energy-intensive industries facing strong international competition, on the risk of carbon leakage, and in the context of implementing COP21 in such a way that European companies can operate on a global level playing field.

Aim of the debate at the Competitiveness Council on 29 February 2016

A state-of-play note from the Commission is annexed to this document as background to the debate.

The Netherlands Presidency invites the Competitiveness Council to:

1. Take note of the state of play of the implementation of the Luxemburg Presidency Conclusions of 9 November 2015, and how these have been translated into concrete measures.

2. Discuss what further concrete actions are needed to deal with the challenges faced by the European steel industry (and wider European energy-intensive industries), taking into account what has been done so far and the outcomes of the High Level Conference on 15 February 2016. The Council is invited to focus in particular on actions that can realistically be taken in the short term, given the urgency of the current challenges.

ANNEX

Situation of the European Steel Sector

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

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

Steel forms a substantial part of a number of industrial value chains. The supply of affordable and high-quality steel is closely linked to the competitiveness of many industrial sectors, including construction, automotive, electronics, mechanical and electrical engineering.

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

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

Challenges faced by the European Steel industry and policy solutions

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

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

As an example, Chinese excess steel capacity was estimated by the world steel association, in 2014 to be approximately 340 million tonnes in 2014, i.e. more than double the EU's annual crude steel production for the same year (169 million tonnes). In parallel, EU crude steel production decreased in 2015 to 155 million tonnes.

The detrimental effect of Chinese state funding in additional manufacturing capacity has been intensified with the present economic slowdown in China. Moreover, many third steel-producing countries have introduced trade restrictions or distortions in order to protect their local steel industries, including tariff barriers, non-tariff measures, export incentives and subsidies as well as restrictions on different types of steel-making raw materials.

In addition to local protectionism, unfair trading practices are often used by third countries with the aim of exporting excess production.

Where appropriate and supported by evidence, the Commission addresses these unfair trade practices through its Trade Defence Instruments (TDI). As a consequence, there are 35 definitive anti-dumping measures currently in force against these unfair commercial behaviours. In 2015 and early 2016 the EU steel industry introduced 9 new complaints against steel unfair trade practices. The latest anti-dumping investigations were opened on 12 February 2016 to determine whether Chinese imports of three steel products have been dumped on the EU market. If this is found to be the case, the Commission will take measures to protect the European industry from damaging effects of unfair trade. In addition, the Commission decided on 12 February 2016 to impose as of that date provisional anti-dumping duties on another steel product imported from China and Russia, following other provisional anti-dumping measures adopted recently. This shows that the Commission is acting swiftly and applying all trade defence instruments at its disposal to protect European steel producers against unfair trade. Moreover, the Commission is also addressing the root cause of the problem, i.e. global overcapacity, and encourages third country governments to apply the right mix of policy measures. These policy discussions take place at multilateral (e.g. the OECD Steel Committee) and bilateral level (e.g. the EU Steel Contact Groups with third countries). In addition, the EU is determined to follow an ambitious trade agenda and to open up third country markets for EU steel products through negotiations of FTAs.

2. Market Economy Status of China

Certain provisions of the Protocol on Accession of China to the World Trade Organisation expire on 11 December 2016. The Commission has not yet taken a final decision on how to reflect this expiration in the EU trade defence legislation. The Commission is conducting an in-depth examination including an analysis per sector and per Member State, covering other aspects of this issue, in particular the potential impact on jobs.

The impact assessment includes a public consultation and contacts with stakeholders. Commissioner Malmström updated the European Parliament and the Member States on the details of these recent developments on 1 and 2 February, respectively.

In its assessment, the Commission intends to exchange experience and closely liaise with trade partners on this issue.

3. Energy costs – Global and intra-EU situation

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

Moreover, energy price differences within the EU persist and divergences can be wide, as a result of national energy policies and taxes. The Commission will continue to closely monitor these developments and is preparing a new energy prices and costs report for publication later in 2016.

In the recently adopted proposal for the reform of the Emission Trading Scheme (ETS), the Commission aims at securing access to free allowances for energy intensive industries including the steel sector, within the limits imposed by the general climate and energy framework. Furthermore, Member States are actively encouraged to use ETS auction revenues for financial compensation for the indirect ETS cost, while also reporting on their use, guaranteeing transparency and accountability.

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

4. Competition policy

Competition policy is an important element to help Member States fostering the long term competitiveness of their energy-intensive industries and at the same time protecting the Single Market in view of national support measures.

The Commission's Guidelines on State aid for environmental protection and energy 2014-2020 allow Member States to compensate indirect financing costs of renewable energy support schemes (compensation for the indirect costs of financing renewable energy support has already been approved for the United Kingdom, Germany, Romania and Denmark).

In addition, under the Commission's Guidelines on certain State aid measures in the context of the greenhouse gas emissions allowance trading scheme post 2012, Member States may offset indirect ETS costs under certain conditions (the Commission has already approved schemes to compensate for indirect ETS costs for the United Kingdom, Germany, Spain, the Netherlands, Greece, Lithuania and Belgium (Flanders)).

Moreover, aid for research and development can also be granted under the State Aid Framework for Research and Development and Innovation.

To avoid damaging subsidy races in the Single Market, rescue and restructuring aid has not been permitted in the Steel sector since the mid-1990s and a market-driven approach is being followed to achieve the capacity adjustments and restructuring necessary to ensure a viable and sustainable steel industry in Europe.

5. Investment plan: boosting innovation in the steel industry

Faced with high energy prices and cheap import of commoditised products from China and other developing countries, the key challenge for the European steel industry is to become more competitive by increasing its position in the high-end, high quality and thus higher margin segments of the industry. High-value steel products yield five to eight times more revenue per ton than commodity steel. To further foster European businesses in these segments, the sector can rely on permitted forms of support from the EU and the Member States as regards R&D&I.

In particular, the Investment Plan for Europe can help to foster the competitiveness of Energy Intensive Industries, such as steel, through innovative solutions. The EIB has already approved and granted one project on steel under EFSI and more projects could be submitted for evaluation as of now.

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

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

In some cases, restructuring measures are inevitable and may lead to job losses. Within its legal and budgetary limits the European Globalisation Adjustment Fund can co-fund up to 60% of the total cost of active labour market measures which aim at helping redundant workers finding new jobs.

Conclusion

The sections above illustrate the main challenges faced by the European Steel industry and give examples of EU policies that can provide support and help strengthen its competitiveness.

The Circular Economy package also offers a potential for strengthening the EU steel industry's competitiveness.

However, these are just examples and other policies and actions that could be envisaged include improving access to public procurement markets in third countries.

In terms of process and monitoring of the EU steel industry's competitiveness, the High Level Group on Energy Intensive Industries, set up by the European Commission, could be used to address the specific situation of the steel industry, together with stakeholders. The 1st meeting of this group already took place in December 2015. It was dedicated to the challenges and strategic priorities of these sectors. The Commission also organised a high-level conference on energy-intensive industries on 15 February 2016 including Ministers from the UK, France, the Netherlands and Slovakia, as well as MEPs and CEOs coming from companies along the energy-intensive industry value chains. Under the formula of the High Level Group on Energy Intensive Industries a number of initiatives will be taken forward, namely technical workshops on the Emission Trading Scheme and available funding opportunities.

Furthermore, the dialogue with important third country steel producers (like China and India) could be strengthened, including in the context of the OECD steel committee.

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