



Brussels, 24.6.2014  
SWD(2014) 215 final

**COMMISSION STAFF WORKING DOCUMENT**

**State of play on implementation of the Commission Communication Action Plan for a competitive and sustainable steel industry in Europe of 11 June 2013 (COM(2013) 407)**

## 1. Introduction

In 2013 the Commission adopted a Communication “Action Plan for a competitive and sustainable steel industry in Europe”<sup>1</sup> (Steel Action Plan). It is the first comprehensive action plan for steel proposed by the Commission since the Davignon Plan of 1977 and it came eleven years after the expiration of the European Coal and Steel Community (ECSC) Treaty in 2002.

The Communication recognised the strategic importance of steel to the EU due to its close links with many downstream industrial sectors such as automotive, construction and electronics. It emphasised that steel making has a future in Europe, as the European steel industry has many assets in the form of modern plants, advanced products, demanding clients forcing constant product innovation, an important domestic market and a skilled workforce. It has also made significant efforts to reduce its environmental impact.

The sector however faces major challenges: low demand in Europe not matching the installed capacity, increasing energy costs, reliance on imported raw materials, stiff and often unfair competition and challenging environmental requirements. Plant closures and job losses followed with 60 000 jobs lost since 2007 and production dropped from 210m tonnes in 2007 to 166m tonnes last year. In its Steel Action Plan, the Commission underlined the importance of addressing these challenges at both EU and national levels.

The Commission established a High Level Group on Steel (HLG) in October 2013 with the aim of providing a European platform for dialogue, exchange of information and best practice. It is composed of 17 Member States, 16 representatives of the industry and 16 representatives of civil society. Two institutions, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) are also members of this group. The HLG meets annually. Since its creation, it met twice, in December of 2013 and in June 2014. The group has a dedicated website<sup>2</sup> where the information relating to its activities is published. The creation of that group set an example and several Member States decided to establish similar groups at national level. This is the case for instance of Spain, Italy and Slovakia<sup>3</sup>.

Following the adoption of the Steel Action Plan other EU institutions have issued corresponding opinions or resolutions. The Committee of the Regions adopted its own-initiative opinion on 28 November 2013<sup>4</sup>, the European Economic and Social Committee (EESC) followed with its report<sup>5</sup> on 11 December 2013 and on 4 February 2014 the European Parliament adopted its resolution<sup>6</sup>. They all welcomed the Action Plan and considered it as a first step forward, recognising the steel sector as a strategically important sector for Europe and as a motor for growth, while calling for its swift implementation as well as a roadmap to be established to facilitate its implementation. To support discussions within the High-Level Group on Steel, the Directorate General for Enterprise and Industry in the European Commission developed a roadmap and made it publicly available.<sup>7</sup>

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<sup>1</sup> COM (2013) 407

<sup>2</sup> <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=2972>

<sup>3</sup> National Steel Action plan – Government decision nr. 187/2014

<sup>4</sup> CDR 5279/2013

<sup>5</sup> CESE 4522/2013 - CCMI/117

<sup>6</sup> European Parliament resolution of 4 February 2014 on the Action Plan for a competitive and sustainable steel industry in Europe (2013/2177(INI))

<sup>7</sup> [http://ec.europa.eu/enterprise/sectors/metals-minerals/steel/high-level-roundtable/index\\_en.htm](http://ec.europa.eu/enterprise/sectors/metals-minerals/steel/high-level-roundtable/index_en.htm)

As announced in the Steel Action Plan, this Staff Working Document aims to take stock of the progress made since the adoption of the Steel Action Plan a year ago while highlighting its implementation gaps. It provides information about the economic condition and trends for the steel sector as well as an interim overview of the implementation of the actions by the European Commission, individual Member States and industry as well as social partners. Given that the majority of the key challenges addressed are unlikely to be overcome in a single year, this overview shows the continuity of efforts over time.

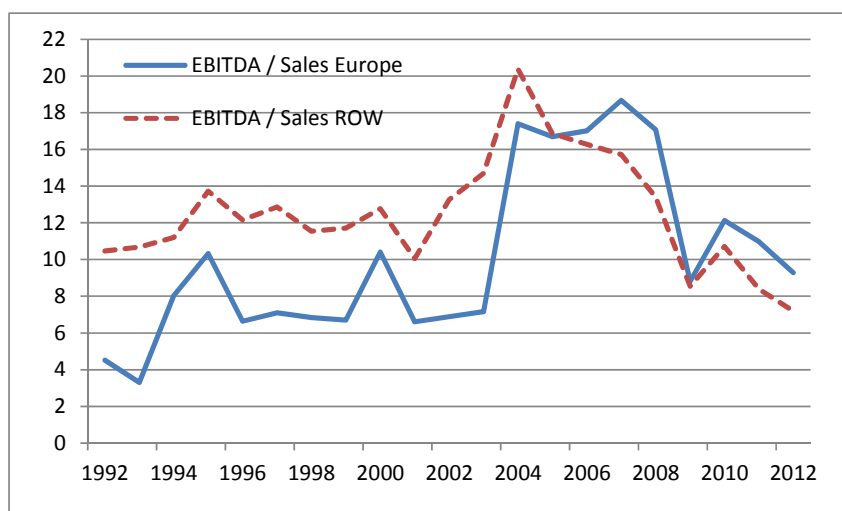
### *Steel market developments*

A moderate recovery in the steel sector is under way. Preliminary data signal that all EU steel using sectors except for the construction industry and the mechanical engineering sector registered a first positive growth in activity since 2011. The outlook for 2014 and 2015 shows a gradual and rather cautious recovery of real steel consumption in the EU, in line with activity in the key steel using sectors gaining traction again following their disappointing performance in the past two years. Prospects for 2014 are moderately positive with real steel consumption expected to grow by less than 2%. A higher growth of 2.5% is expected in 2015<sup>8</sup>. Further expected improvement in the financial and economic framework should boost confidence and investment in the EU's steel sector. The real steel consumption is foreseen to rise by almost 2.5% in 2015.

### *Industry profitability*

A study on profitability of steel producers conducted by the Organization for Economic Co-operation and Development (OECD) in 2013 estimated that a sustainable level of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)/sales for this sector is around 16%. The world average reached 7.6% in 2012 with 83% of steel firms below 16%.. The graph below presents the EBITDA/sales ratio for both European and rest-of the world (ROW) producers.

Moreover, the study also shows that since the early 1970's on four occasions has the EU steel production matched capacity and that the EBITDA also depends on the capacity utilisation ratio. The industry therefore needs to address its cycles of over-capacity.



The world steel industry is generally characterized by low profitability and high volatility. The industry is pursuing a number of “generic strategies” like moving to high growth

<sup>8</sup> Eurofer Economic and Steel Market Outlook 2014-2015

markets, merging with or acquiring competitors to gain the benefits of scale, increasing the share of “high value added” products, upstream integration into iron ore mining, or closer links with customers.

## 2. State of play

### 2.1 The right regulatory framework

*Action: Cumulative Cost Assessment for the steel sector*

In the Commission’s Smart Regulation agenda<sup>9</sup> the Commission announced its intention to identify excessive burdens, inconsistencies, gaps or ineffective measures. The measurement of costs and benefits is an important aspect of Smart Regulation<sup>10</sup>. In order to assess the variety of regulatory costs incurred by specific industrial sectors, the Commission undertakes Cumulative Cost Assessments (CCAs). In this context the steel sector was the first to undergo a CCA. The Communication<sup>11</sup> called upon the Commission to finalise the study for the steel sector in 2013 in order to assess the overall regulatory burden.

This study was carried out in the first half of 2013 and published on 12 June 2013<sup>12</sup>. The cumulative cost assessment evaluates the impact that the most relevant EU legislative acts and initiatives have on the performance of the steel sector. Eight areas were analysed in the study: General Policies; Commodity Market Regulation; Climate Change; Competition; Energy; Environment; Trade and Products and Life Cycle Approach (LCA).

The study found that the cumulative regulatory costs are low compared to the overall cost of steel production. However the steel industry is a pro-cyclical industry and therefore in times of crisis regulatory costs may be even higher than EBITDA, like in the exceptional case of 2009. More often, they represent 20% to 30% of the EBITDA. At this level, they may influence the viability of the industry, even if overcapacity and lack of investment are important factors as well, as the EBITDA needs to cover financial expenditures, depreciation and amortization, that is the cost of capital. It is worth mentioning that regulatory costs are substantially higher for EAF (Electric Arc Furnaces) compared to BF - BOF (Blast Furnace - Basic Oxygen Furnaces), mainly because of the EAF route is more affected by high electricity prices.

Cumulative regulatory costs for EU Steel production (€/tonne)

	<b>BOF HRC</b>	<b>EAF WR</b>	<b>Steel Industry</b>
ETS	0.74	5.85	2.79
Energy	3.67	8.12	5.46
Environment	6.15	3.39	5.04
Product (REACH)	0.10	0.05	0.08
<b>Total</b>	<b>10.66</b>	<b>17.41</b>	<b>13.37</b>

<sup>9</sup> COM (2010) 543 and COM (2012) 746

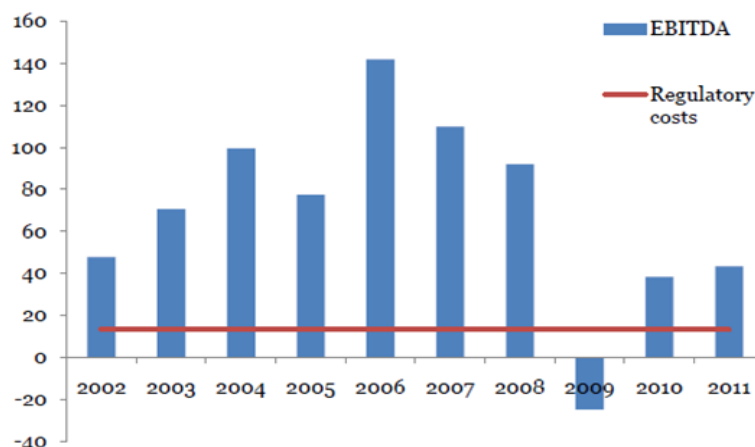
<sup>10</sup> COM(2014) 368 final

<sup>11</sup> COM (2013) 407

<sup>12</sup> [http://ec.europa.eu/enterprise/sectors/metals-minerals/files/steel-cum-cost-imp\\_en.pdf](http://ec.europa.eu/enterprise/sectors/metals-minerals/files/steel-cum-cost-imp_en.pdf)

Source: CEPS Cumulative Cost Assessment for the Steel Sector, 2013

Typical cumulative regulatory cost vs steel EBITDA (2002-2011)



Source: CEPS Cumulative Cost Assessment for the Steel Sector, 2013

### *Member States*

Slovakia is considering carrying out the cumulative and systematic cost assessment (especially energy environmental and social regulation, trade barriers) of Slovak regulations regarding the steel sector in order to address the simplification and burden reduction potential.

#### *Action: VAT evasion*

In some Member States, value-added tax (VAT) evasion in the steel market negatively influenced the operational conditions of steel producers. For this reason the Commission proposed to investigate, together with Member States, possible initiatives against the illegal EU market for steel products, including VAT evasion. On 22 July 2013 the European Council adopted two Directives<sup>13</sup> that enabled Member States to better combat VAT fraud, facilitating rapid reaction and allowing a specific measure to tackle the so-called carousel fraud. This has had positive impacts for the industry in the Member States where this VAT fraud was present, especially in Poland and Czech Republic.

#### *Action: SustSteel*

European standards could also support the steel sector. The Commission therefore decided to examine the potential of the Steel Construction Products Mark – SustSteel – developed by industry. The Commission took contact with industry and examined, including in the framework of a workshop on 13 March 2014 with representatives from Member States, industry and civil society, specific potential standardisation activities to see if they could boost the market share of such products. In the absence of consensus within the EU's steel sector, the Commission asked industry to organize an internal workshop and to come back with a common position. It is therefore considered necessary to wait until such a consensus is reached before continuing further work in this area.

<sup>13</sup> [Directive 2013/42/EU](#) and [Directive 2013/43/EU](#) of 22 July 2013 which amend Directive 2006/112/EC

*Action: Competitiveness proofing*

The Commission continued to assess the impacts of new initiatives which were expected to have a major influence on the competitiveness of the steel industry in its impact assessments, including the use of competitiveness proofing. Among many Commission proposals, a few deserve particular attention. In all cases below the competitiveness aspect was analysed:

- Commission Communication on the Guidelines on environment and Energy State aid for 2014-2020<sup>14</sup>;
- Proposal for a Union Framework for State aid for Research, Development and Innovation<sup>15</sup>;
- Proposal for a Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure<sup>16</sup>;

## **2.2. Boosting demand for steel**

*Action: Promotion of the key steel-using sectors*

In line with expectations, preliminary data for 2013 signal that most of the EU's steel using sectors registered the first positive year-on-year growth in activity since 2011. The main customers of steel producers are the construction and automotive sectors.

### *Sustainable Construction*

The outlook for 2014 and 2015 is for a slow and cautious recovery of the EU's construction market. EU construction output is forecast to grow by 0.9% in 2014 and by 1.6% on an annual average over the period 2014-2016<sup>17</sup>. The pick-up in construction output would be mostly driven by the residential sector. Trends in infrastructure works would depend on public debts and deficits, and the fiscal consolidation measures that will be put in place, but overall seem to be positive.

The Communication "Sustainable Construction"<sup>18</sup> proposes actions to help the construction sector, specifically where it has been affected by the crisis. The accompanying Action Plan puts particular emphasis on appropriate programs, fiscal incentives, credit mechanisms and financial engineering instruments for the renovation of existing buildings.

In the 2014-2020 programming period, the European Structural and Investment Funds (ESI Funds) are expected to play a major role in stimulating sustainable energy refurbishment of buildings with the allocation of €27 billion for investments in the shift towards to low-carbon economy, including energy efficiency and renewable energy use in buildings. Technical guidance entitled "Financing the energy renovation of buildings with Cohesion Policy

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<sup>14</sup> C (2014) 2322

<sup>15</sup> C(2014) 3282

<sup>16</sup> COM(2013) 0813

<sup>17</sup> Euroconstruct, 76th EUROCONSTRUCT Conference in Prague, Czech Republic, 29th November, 2013

<sup>18</sup> COM(2012) 433 final

funding”<sup>19</sup> was released in February 2014 to help managing authorities deploy investments, including the aim of attracting greater levels of private-sector investments.

As announced in the Communication “For a European Industrial Renaissance”<sup>20</sup>, the Commission is discussing with the European Investment Bank the possibility of setting up a EUR 25 billion EIB lending capacity for energy efficiency in residential housing, and to improve recycling and sustainable waste management in construction.

In 2014, the Commission is planning to present a Strategy on “Resource efficiency opportunities in the building sector”. In collaboration with stakeholders, the Commission will develop a framework with a set of core indicators, to be used to assess the environmental performance of buildings throughout their life-cycle.

Finally, Eurocodes<sup>21</sup> are a series of European standards providing a common approach for the structural design of buildings and other civil-engineering works. In particular, the Eurocode 3 is used to determine the performance of steel structures and is the preferred reference for technical specifications in EU public contracts. The next generation of Eurocodes shall among others cover the assessment, reuse and retrofitting of existing structures.

### *Cars 2020*

Automakers are faced with a two-fold challenge: while called on to reduce vehicle weight, they are asked to improve safety and maintain affordability, requirements that are in direct opposition to each other. To address cost, material selection becomes the crucial factor. Competitive materials, such as aluminium, magnesium or carbon-fibre-reinforced polymer (FRP) are at a significant cost disadvantage over steel for all aspects of the car body structure manufacturing process.

Over the past decade, advanced high-strength steels (AHSS) have become the fastest growing material for vehicle use. AHSS are stronger, lighter, and have low emissions, helping automakers decrease a vehicle's life-long carbon footprint. Steel, which currently makes up about 60% of the average vehicle, generates fewer emissions than other automotive body materials. Over a vehicle's lifecycle, steel is the highest value and most environmentally effective choice for automakers.

Although steel demand in tonnes is unlikely to grow in the future, the value of AHSS used will ensure that the automotive industry continues to be an important outlet for European steel plants.

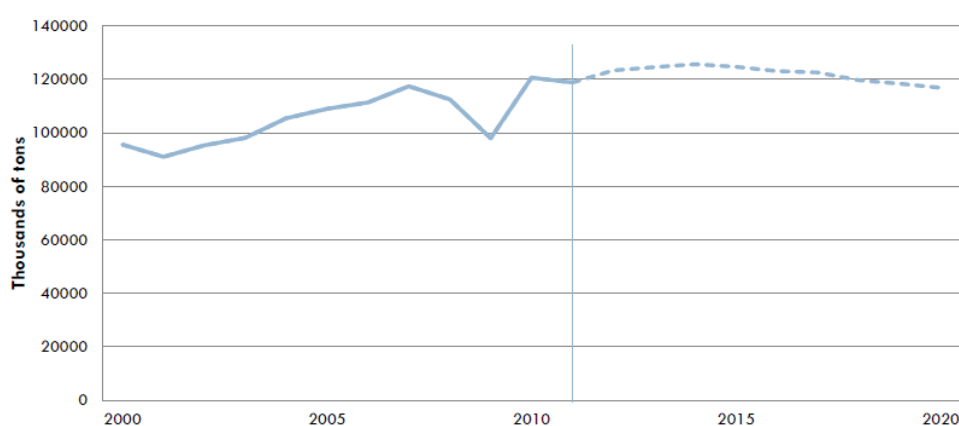
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<sup>19</sup> [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/financing\\_energy\\_renovation.pdf](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/financing_energy_renovation.pdf)

<sup>20</sup> COM (2014) 14/2

<sup>21</sup> <http://eurocodes.jrc.ec.europa.eu>

## World Automotive Steel Demand



EU passenger car sales have been on an upward trend in 2013. The UK remained the most dynamic market in the EU, but also in Denmark, Estonia, Spain, Hungary, Portugal, Poland and Slovenia car sales grew. Also export demand from third countries strengthened, which was particularly supportive to car production in Germany and the UK; demand from the US and China was robust. The outlook for 2014-2015 is for a moderate rebound in automotive output. The overall mature car market in Europe is expected to improve only cautiously, and will basically remain driven by replacement demand.

On 8 November 2012 the Commission adopted a Communication entitled CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe<sup>22</sup>. It is built around four pillars, each consisting of a set of concrete implementing initiatives, which aim at strengthening the competitiveness of the European automotive industry. Important milestones were reached in 2013 as regards the implementation of this strategy.

In 2013, the Commission, after consultations with the industry, prepared and presented a proposal for the European Green Vehicles Initiative<sup>23</sup>. With a proposed budget of more than €750 million divided into seven years of operation (2014 – 2020), this initiative will co-finance research in the area of energy efficiency and alternative fuels.

With an average of €2bn a year, the EIB remains a major sector financing factor providing support to the development of clean / alternative transport fuel technologies. The majority of automotive lending has been dedicated to Research, Technological Development, Demonstration and Innovation investments (RDI) projects, notably in the areas of reduction of emissions and of fuel consumption and also on safety. At the end of 2013, the Commission adopted a proposal for a revision of Directive 96/53/EC<sup>24</sup>, which will, among others, improve road safety and fuel efficiency of heavy duty vehicles. It also further promotes the deployment of Intelligent Transport Systems (ITS), including cooperative systems, in particular the EU-wide in-vehicle emergency call system "eCall". The Commission proposal on "eCall"<sup>25</sup> was adopted and discussions are currently taking place in the European Parliament and in the Council.

<sup>22</sup> COM(2012) 636 final

<sup>23</sup> <http://www.egvi.eu/>

<sup>24</sup> COM(2013) 195 final

<sup>25</sup> COM(2013) 316 final



### *Promotion of other steel-using sectors*

Apart from the traditional key customer sectors, there is an increasing trend for new industries to provide the demand for steel. There are three sectors expected to represent 90% of global steel demand growth up to 2025<sup>26</sup>:

- Construction (68% of tonnage), driven by residential, infrastructure projects in emerging economies;
- Mechanical engineering (13% of tonnage);
- Energy transportation (9% of tonnage), pipelines, and other tubes.

Most of this growth is expected in emerging countries. The EU's steel industry is already taking advantage of preferential access to growing steel markets in Africa and Middle East. The structure of EU steel exports seems to be capturing the growth opportunity in emerging markets.

The share of pipes and tubes (a major export item), has slightly declined from 14.8% (2007) to 13.1% (2012) while bars became the largest export item in 2012. Exports of long products are steadily increasing supported by robust construction activity in North Africa. Exports of high value-added products (e.g. galvanized sheets) are increasing along with the growth of the auto sector in emerging markets.

The recent European Council in March 2014<sup>27</sup> stated that efforts to reduce Europe's high gas energy dependency rates should be intensified, especially for the most dependent Member States. The new energy plan will reflect the fact that the EU needs to accelerate further diversification of its energy supply, increase its bargaining power and energy efficiency, continue to develop renewable and other indigenous energy sources and coordinate the development of infrastructure, including through the development of interconnections. These measures imply a potential increased demand for steel in energy related areas (e.g. steel tubes and pipes).

### *Member States*

Poland launched a set of investments to develop gas interconnectors on the borders with other Member States. These works increase tubes' demand while decreasing Poland's dependence on imported gas.

## **2.3 A level playing field at international level**

### *Action: Free Trade Agreements (FTAs)*

The Commission pursues its trade liberalisation agenda through the negotiation of FTAs, with a view to eliminate or substantially reduce tariffs and non-tariff barriers on third-country markets as well as to improve the sustainable access to raw materials for the EU industry. In this context the EU/Canada Free Trade Agreement (CETA) is positive as once it will be concluded the Canadian public procurement markets at both federal and sub-federal levels will be open to EU products. The Commission has also started negotiations in the context of the Transatlantic Trade and Investment Partnership (TTIP) with the USA which could have an impact on steel products in many respects (e.g. government procurement). As regards the

<sup>26</sup> OECD presentation HLG Sherpa meeting 13 March 2014

<sup>27</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/141749.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/141749.pdf)

FTA negotiation with India and the ASEAN countries (Malaysia Thailand and Vietnam), ongoing discussions include export restrictions and tariffs reduction.

*Action: Trade defence actions*

Trade defence instruments (TDI) – anti-dumping, countervailing and safeguards – are important tools under the WTO rules to remove economic damage caused by unfair trade practices or, in case of safeguards, to provide a temporary relief from unforeseen and significant increase of imports. However, if not applied strictly in accordance with the WTO rules, they can become tools of protectionist policies that hamper world trade and economic development.

In its Steel Action Plan, the Commission proposed within its comprehensive trade strategy to use its various trade policy tools and instruments, including TDI, to ensure a level playing field on the EU market<sup>28</sup> and legitimate access to third country markets for European steel producers' by avoiding unwarranted trade restrictive measures abroad<sup>29</sup>. Note that there are currently ten on-going anti-dumping investigations and 37 measures in force (34 anti-dumping and three anti-subsidy) related to imports of steel products into the EU. There are also a number of measures currently imposed against EU exports of steel products. One of these measures, i.e. Chinese anti-dumping measures on imports of EU made pipes, is currently subject to a WTO panel requested by the EU.

In recent years the Commission has also initiated a process of modernization of its trade defence instruments, including a legislative proposal currently under discussion in the Council and EP.

*Action: Scrap Markets*

In its Steel Action Plan, the Commission announced that it would present a legislative proposal on inspections and controls on waste shipments. In July 2013, the Commission proposed to amend the Waste Shipment Regulation<sup>30</sup> and presented an accompanying Impact Assessment<sup>31</sup>. This proposal foresees a reinforcement of national inspections of waste shipments, to further reduce illegal exports of waste. It notably proposes minimum inspection requirements throughout the EU, to ensure that sufficient controls are carried out in all Member States.

The Commission also launched a public consultation on certification for waste treatment facilities<sup>32</sup> which closed in March 2014. The aim of this consultation was to understand stakeholders' views on a range of certification actions which could be undertaken in order to tackle the problem of waste shipments out of the European Union to non-OECD countries if the waste is not treated in an environmentally sound manner. The results of the consultation will be used as one of the bases for considering EU policy in this area.

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<sup>28</sup> For more detailed information, please refer to the 31st Annual Report from the Commission to the European Parliament on the EU's Anti-Dumping, Anti-Subsidy and Safeguard activities (published and available on the DG Trade Web site)

<sup>29</sup> For more detailed information, please refer to the Annual Report for 2013 on third country trade defence actions taken against the EU (published and available on the DG Trade Web site)

<sup>30</sup> COM(2013)516 final

<sup>31</sup> SWD(2013)268 final

<sup>32</sup> [http://ec.europa.eu/enterprise/policies/raw-materials/public-consultation-waste/index\\_en.htm](http://ec.europa.eu/enterprise/policies/raw-materials/public-consultation-waste/index_en.htm)

Roughly 40% of EU steel production comes from EAF which allow steel to be made from a 100% recycled scrap metal feedstock. In this context it is worth noting that the EU conducts various initiatives aimed at encouraging recycling, among these the European Innovation Partnership (EIP) on Raw Materials. (For a more detailed explanation of the EIP see the part on Research and Innovation)

*Action: Surveillance 2*

The Commission decided to use the Surveillance2 system, which collects data directly extracted from import customs declarations, to monitor EU scrap exports from June 2014 onwards.

This data relates to the reference of the customs declaration, the nature of the goods, their origin, their volume, their value and their date of acceptance by the customs administration (actual import date).

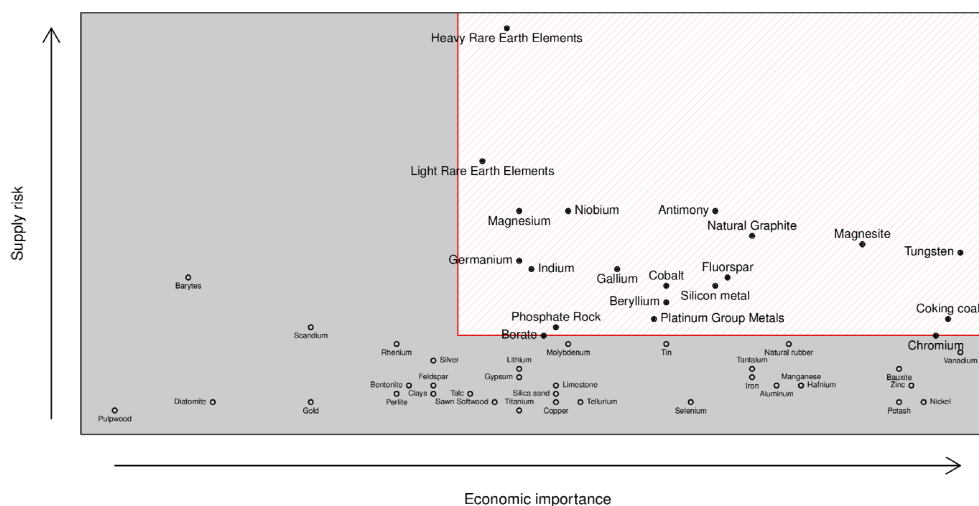
*Action: Critical Raw Materials*

The European Critical Raw Materials Strategy is embedded in the Raw Materials Initiative (RMI) which was initiated in November 2008 via the Communication "The raw materials initiative – meeting our critical needs for growth and jobs in Europe"<sup>33</sup>. One of the key actions of the RMI is, among many others to monitor the issue of critical raw materials with a view to identifying priority actions. It also committed to undertake a regular review and update of this list at least every three years. The list of critical raw materials is an important tool for the Commission to raise awareness and determine priority actions in the areas covered by the Raw Materials Initiative.

The Commission therefore proposed to consider the inclusion of coking coal in the list of Critical Raw Materials (CRM) in addition to other key essential elements for steel production. The CRM list was adopted along with the Annual Report on the RMI on 26 May 2014. This new list includes thirteen of the fourteen materials identified in the previous study, with only tantalum moving out of the list. Six new materials are added to the list including borates, chromium and coking coal, which are particularly relevant for the sector as they are needed for the production of steel alloys. These critical raw materials have a high economic importance to the EU combined with a high risk associated with their supply. This will have potential positive effects for the sector especially in trade negotiations with third countries and/or in research projects.

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<sup>33</sup> COM(2008) 699 final



Source: Report of Critical Raw Materials for the EU, 2014

*Action: Engage with the main non-EU producing countries to discuss an overview of the challenges including on overcapacity*

Since the adoption of the Steel Action Plan, the Commission has engaged in dialogues with the main non-EU producing countries on different occasions to discuss the most actual and relevant issues for the steel sector including global overcapacity;

- i. at the annual Steel Contact Group (SCG) meeting with China on 12 November 2013;
- ii. with Russia at the annual SCG meeting on 24 February 2014; and
- iii. three times within the framework of the OECD, at the 74<sup>th</sup> and 75<sup>th</sup> sessions of the OECD Steel committee in July and December 2013 respectively. On this occasion the Commission gave a presentation on the Steel Action Plan and other trade partners also presented their steel policies and plans. The last meeting -- 76<sup>th</sup> session- of the OECD Steel committee took place on 5-6 June 2014.

### *Industry*

The European Union Chamber of Commerce<sup>34</sup> published in 2009 a report on overcapacity in China in a selection of sectors. This report had sections on a) the causes of overcapacity; b) the impacts; c) recommendations for Chinese policy-makers and d) a sectorial focus looking at six industrial sectors (steel, alum, cement, wind, refining and chemicals). During 2013 intense work has been done to update the report. The final results are expected in the summer of 2014.

### **2.4. Energy, climate, resource and energy efficiency policies to boost competitiveness**

The European steel industry has made significant efforts to reduce its CO<sub>2</sub> emissions which has resulted in an average carbon intensity of 1,5 tCO<sub>2</sub><sup>35</sup> per tonne of steel produced in the

<sup>34</sup> The EECCC was founded in 2000 by 51 member companies. The Chamber is recognized by the Commission and the Chinese Authorities as the official voice of European business in China. It is recognized as a Foreign Chamber of Commerce with the Ministry of Commerce and China Council for the Promotion of International Trade

<sup>35</sup> Industry associations

EU. This figure varies around the globe quite widely according to the technology used and the age of the plant used to produce it. Globally, emissions from blast furnace operations dominate steel production emissions. For instance, emissions reach 2,1 tCO<sub>2</sub><sup>36</sup> per tonne of steel produced in China. This shows that from a climate change perspective it is more convenient in some cases to produce steel in Europe than elsewhere. About 40% of global CO<sub>2</sub> emissions originate from the production of energy<sup>37</sup>. These emissions could be reduced, by the use of low-carbon technologies (e.g. Carbon Capture and Storage (CCS), nuclear and renewables) subject to economic feasibility, but at the same time the demand might increase with regard to steel and other metals.

*Action: Pursue negotiations towards concluding a binding international agreement on climate change*

At the initiative of the EU and the most vulnerable developing nations, taken at the Durban climate conference in December 2011<sup>38</sup>, UN negotiations are under way to develop a new international climate change agreement that will cover all countries. The 2015 agreement will have to bring together the current patchwork of binding and non-binding arrangements under the UN climate convention into a single comprehensive regime.

The EU, and few other European countries and Australia have agreed to join a legally binding second period of the Kyoto Protocol<sup>39</sup> which runs until 2020, while over 70 other countries – both developed and developing - have made different types of non-binding commitments to reduce, or limit the growth in, their greenhouse gas emissions. Elements of a draft negotiating text are to be ready in time for the Lima climate conference in December 2014 so that a full negotiating text is available before May 2015.

The Warsaw climate conference in November 2013<sup>40</sup> sent a strong signal that all countries need to start doing their 'homework' to prepare their contributions to reducing or limiting emissions under the 2015 agreement. All Parties agreed to put forward their intended contributions well in advance of the Paris conference and by the first quarter of 2015 if they are ready to do so.

*Action: Standards for assessing Greenhouse Gas (GHG) emissions*

The first progress report on European standards was submitted and the draft standards developed for the five categories foreseen (steel and iron, aluminium, cement, lime and ferroalloy). These will be tested for a duration of approximately one year. The final report is envisaged for Summer 2014 and a conference is foreseen in November 2014 to present the standards for those five categories.

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<sup>36</sup> ibidem

<sup>37</sup> IPCC, EEA

<sup>38</sup> [https://unfccc.int/meetings/durban\\_nov\\_2011/meeting/6245.php](https://unfccc.int/meetings/durban_nov_2011/meeting/6245.php)

<sup>39</sup> [https://unfccc.int/kyoto\\_protocol/items/2830.php](https://unfccc.int/kyoto_protocol/items/2830.php)

<sup>40</sup> [https://unfccc.int/meetings/warsaw\\_nov\\_2013/meeting/7649.php](https://unfccc.int/meetings/warsaw_nov_2013/meeting/7649.php)

*Action: Provide guidance on renewable energy support schemes*

Member States have made progress in reaching the renewable energy targets. Public intervention necessary to attain these targets needs to be balanced, taking into account the costs and the distortions it can create in the market also to contain higher energy prices both for households and businesses. Especially energy-intensive industries like steel are affected by policies supporting the use of renewable energy. The Commission presented in November 2013 a Communication “Delivering the internal electricity market. Making the most of public intervention”<sup>41</sup> which gave guidance to Member States on how to make the most of public interventions, how to reform existing ones - especially renewable energy subsidy schemes - and how to effectively design new ones. Financial support should be limited to what is necessary and should help make renewables competitive. Support schemes should be flexible and respond to falling production costs. As they mature, technologies should be gradually exposed to market prices and eventually support must be fully removed.

*Action: Proposals for the EU's 2030 climate policy framework*

The EU framework on climate and energy was presented by the European Commission in January 2014<sup>42</sup>. It forms a package of Communications, a report on energy prices and a Recommendation on shale gas. All together they form the 2030 policy framework.

A centre piece of the Commission proposal for an EU energy and climate policy for 2030<sup>43</sup> is the target of a 40% emissions reduction below the 1990 level. The annual reduction in the ‘cap’ on emissions from EU Emissions Trading System (EU ETS) sectors would be increased from 1.74% now to 2.2% after 2020.

An EU-wide target for renewable energy of at least 27% in 2030 comes with benefits in terms of energy trade balances, reliance on indigenous energy sources, jobs and growth. It offers both opportunities and challenges to the European industry. The new renewables target would not be translated into national targets through EU legislation, thus leaving flexibility for Member States to transform the energy system in a way that is adapted to national preferences and circumstances.

Improved energy efficiency will contribute to the objectives of the EU's energy policy and no transition towards a competitive, secure and sustainable energy system is possible without it. The role of energy efficiency in the 2030 framework will be further considered in a review of the Energy Efficiency Directive due to be concluded later this year. The Commission will carefully assess if sectors which are at the technological limits should be subject to the general rules of this Directive.

To attain this goal, within the Framework Programme for Research and Innovation (2014-2020) - Horizon 2020, a Societal Challenge called "Secure, Clean and Efficient Energy" has dedicated a financial envelope of € 931 million allocated to non-nuclear energy research for the period 2014-2020. The first work programme is split into focus areas and Energy Efficiency is one of them.

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<sup>41</sup> COM(2013)7243

<sup>42</sup> [http://ec.europa.eu/clima/policies/2030/documentation\\_en.htm](http://ec.europa.eu/clima/policies/2030/documentation_en.htm)

<sup>43</sup> COM(2014) 15

*Action: Long-term electricity contracts*

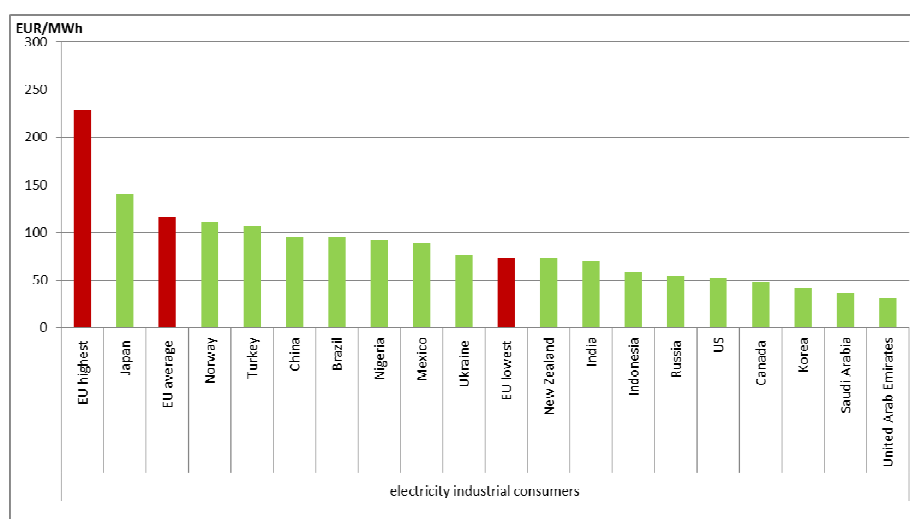
The Commission is ready to provide a Guidance letter on the competition assessment of long-term electricity contracts in case of novel or unresolved questions. To date the Commission has not received a request for such guidance.

*Action: Conduct an analysis of the composition and drivers of energy prices and costs*

Rising energy prices are a major concern for European governments, citizens and businesses and they affect Europe's global competitiveness. As a response to the European Council in May 2013<sup>44</sup> which called on the Commission to carry out an analysis of the composition and drivers of energy prices and costs in Europe, a report was adopted in January 2014<sup>45</sup> as part of the 2030 energy and climate framework.

The report mainly deals with electricity and gas prices, in particular it analyses how retail and wholesale prices have evolved in recent years in EU Member States. It explains in detail the drivers behind the price evolution and compares the situation in different Member States.

The basic findings are that between 2008 and 2012 on average Europe has seen a significant rise in prices both for households and industry. The price differences across different world regions have always existed, but in the last few years these seem to be growing. For example, EU gas prices are sometimes linked to the (rising) global oil price, which is defined by global events. The shale gas boom in the US has brought gas prices down there, while sharply increased gas demand in Japan in the aftermath of the Fukushima nuclear power plant accident has pushed up gas prices in Asia.



Source: EC SWD Energy prices and costs report

Whilst the energy cost element is still the largest part of the price in most Member States, increases have been highest in the taxes and levies elements. This includes taxes and levies to finance energy and climate policies, which are however generally the smallest element in most Member States. The network cost element of prices also rose, due to both rising maintenance and grid expansion costs as well as other costs sometimes incorporated into

<sup>44</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/137197.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/137197.pdf)

<sup>45</sup> COM(2014)21



network costs and tariffs. For example, between 2008 and 2012 the electricity network costs rose 30% for industry (before industry exemptions are taken into account).

One section of the report looked into retail electricity price developments for several energy intensive industries, based on samples compiled from a study that analysed company and plant data. Steel was one of the sectors analysed. The purpose of the case studies was to complement the statistical analysis with data from real installations. The particular results for steel revealed that the electricity price paid by different steel plants across the EU is subject to many variables like plant location, technology used (EAF or BOF) and national policies of Member States on possible exemptions.

Energy costs vary among different types of production. They are relatively low for BOF, representing about 5% of total production costs but can come up to 13% for EAF. Energy costs, if no exemptions or state aid exist, may have a significant impact on the final steel producers' profitability, especially in years in which margins are low.

*Action: Carbon leakage list*

The Commission has made it clear in its Communication on a 2030 policy framework for climate and energy<sup>46</sup> that it intended to present to the EU Climate Change Committee a draft decision on the review of the carbon leakage list which would maintain the current criteria and existing assumptions. This would guarantee continuity of the applied methodology in the composition of the list. It is foreseen that the final carbon leakage list for 2015-19 will be adopted by the Commission before the end of 2014 and applied to free allocation for the first time in 2015. In the meantime the existing list was amended in December 2013<sup>47</sup> by adding another steel sub-sector - Open die forged ferrous parts.

On 8 May 2014 the Commission launched a public consultation<sup>48</sup> on possible post-2020 carbon leakage provisions under the EU ETS and will conduct three meetings with the stakeholders, with the first having taken place on 13 June 2014.

*Action: Exploitation of indigenous gas fossil fuel resources*

The Commission adopted in January 2014 a Recommendation<sup>49</sup> aiming to ensure that proper environmental and climate safeguards are in place for "fracking"<sup>50</sup> – the high-volume hydraulic fracturing technique used notably in shale gas operations. In the EU there was limited experience to date of high-volume hydraulic fracturing on a large scale and at high intensity.

The Recommendation should help all Member States wishing to use this practice to address health and environmental impacts and risks and improve transparency for citizens. It also lays the ground for a level playing field for industry and establishes a clearer framework for investors.

<sup>46</sup> COM(2014) 15

<sup>47</sup> COM(2013)9186

<sup>48</sup> [http://ec.europa.eu/clima/consultations/articles/0023\\_en.htm](http://ec.europa.eu/clima/consultations/articles/0023_en.htm)

<sup>49</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014H0070>

<sup>50</sup> [http://europa.eu/rapid/press-release\\_IP-14-55\\_en.htm](http://europa.eu/rapid/press-release_IP-14-55_en.htm)



*Action: Environmental and Energy State Aid Guidelines*

Another important piece of legislation adopted in the context of the climate and energy policy framework was the new Environmental and Energy State Aid Guidelines (EEAG)<sup>51</sup>. They aim at helping Member States to design state aid measures that contribute to reaching their 2020 climate targets and provide sustainable and secure energy, while ensuring that those measures are cost-effective for society and do not cause distortions of competition or a fragmentation of the Single Market.

The rules for supporting renewable energies are modernised to take account of their increasing share in the electricity market and the need to make support systems sustainable for society. In particular, to support the competitiveness of European industry, the guidelines allow Member States to relieve some EU energy intensive sectors, like steel, particularly exposed to international competition from some of the burden of financing renewables.

To preserve the competitiveness of these sectors and undertakings, the new guidelines allow granting them reductions on the charges levied to support renewable energies. To ensure that this does not go beyond what is strictly necessary, the aid does not compensate for 100% of the charges (companies will have to partially contribute to the funding of renewables).

*Action: Energy and resource efficiency*

Energy efficiency is one of the key elements to lower energy costs. Steel production is energy intensive. However, sophisticated energy management systems ensure efficient use and recovery of energy throughout the steelmaking process for reuse, wherever possible. Improvements in energy efficiency have led to reductions of about 50% in energy required to produce a tonne of crude steel since 1975 in most of the top steel producing countries. The steel industry actively manages the use of energy. Energy conservation in steelmaking is crucial, to ensure the competitiveness of industry and to minimise environmental impacts, such as GHG emissions. Steel is also essential for energy production and transmission and can save energy over product life cycles through its light-weight potential, durability and 100% recyclability. Medium-term energy efficiency improvements in the steel industry are expected through technology transfer, or applying best-available technology to out-dated steel plants worldwide. Breakthrough technologies will be needed in the future to further reduce to a substantial extent, energy consumption beyond 2020.

Steel helps saving energy over product life cycles. While steel products require energy to produce, they can also offer savings over the life cycle of the product, sometimes greater than the energy used during their production. For example, over 20 years, a wind turbine can deliver 80 times more energy than is used in its production and maintenance<sup>52</sup>.

The European Resource Efficiency Platform's<sup>53</sup> objective is to provide high-level guidance to the European Commission, Members States and private actors on the transition to a more resource-efficient economy.

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<sup>51</sup> C (2014) 2322

<sup>52</sup> Worldsteel.org

<sup>53</sup> [http://ec.europa.eu/environment/resource\\_efficiency/re\\_platform/index\\_en.htm](http://ec.europa.eu/environment/resource_efficiency/re_platform/index_en.htm)

*Action: Eco-design*

Sustainable industrial policy aims in particular at developing a policy to foster environmental and energy efficient products in the internal market. The Ecodesign Directive<sup>54</sup> is the cornerstone of this approach. It establishes a framework for the setting of eco-design requirements for energy-related products with the aim of ensuring the free movement of those products within the internal market. Following the extension of the scope of the Directive, the Commission commissioned a revision of the methodology used to conduct Ecodesign preparatory studies. The final report was published in December 2013 and contains a general overview of practical implications with the threefold objective to provide more value with less environmental impact. Steel is analysed as one of the materials.

*Action: Life cycle assessment (LCA)*

The Commission published in 2013 a Communication on Building the Single market of Green Products where the methodology for Product and Organisational Environmental Footprint (PEF and OEF) were included. These common methods are to be applied to measure and communicate the environmental performance throughout the lifecycle. The Commission has issued a recommendation for the use of these methods to Member States, companies and other private organizations.

The Commission also announced a three-year testing period to develop product- and sector-specific rules through a multi-stakeholder process. The testing period was launched through an open call for volunteers. The relevant pilot project concerning the steel sector is on metal sheets (including steel metal sheets). The pilot started in November 2013. The Final outcome of the pilot will be the Product Environmental Footprint Category Rule (PEFCR) which will be a product rule to be used in the sector, in the EU and internationally, to measure the environmental performance of products based on the recommended LCA method.

*Member States*

*Action: Assessment of all national measures on the price of energy for EII*

The recent European Council of 20-21 March 2014 focused on stronger European industrial competitiveness as a driver for economic growth and jobs. It held a first policy debate on the framework for climate and energy in the period from 2020 to 2030. It underlined the important link between the Europe 2020 strategy, industrial competitiveness and climate and energy policies. The Council will take stock of progress made on these issues at its meeting in June 2014 with a view to taking a final decision on the new policy framework as quickly as possible and no later than October 2014

Individual Member States are also taking steps to provide the right framework conditions for energy intensive sectors, including steel to allow them to be internationally competitive. Several Member States decided to establish similar groups as HLG at national level. This is the case for instance of Spain, Italy and Slovakia

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<sup>54</sup> 2009/125/EC

*Action: Reduction of the energy prices for EII*

Belgium adopted an amendment to its energy law in December 2013. 13 sectors including steel, agreed to define new targets in energy and energy efficiency. In return companies are paying their electricity at a lower price but are requested to examine the possibility to use renewable energy, to measure their carbon footprint.

Wallonia grants a bonus for companies investing in projects of sustainable development (environment and rational use of the energy's resources). At the same time, companies are supported by a network of facilitators giving advice on the issue of energy. A programme called ARMURE, grants subsidies to companies which are auditing energy. The revised ETS Directive<sup>55</sup> gives Member States the possibility to compensate the most electro-intensive sectors (including steel) for increases in electricity costs resulting from the ETS through national state aid schemes. So far six national state aid schemes were approved by the Commission in Germany, United Kingdom, France, Spain, the Netherlands and Belgium (Flanders). Slovakia is in the notification phase. In addition, Sweden, France, Belgium, Denmark, Austria, the Netherlands, Ireland, Czech Republic, Latvia, United Kingdom and Germany grant or will soon grant reductions to energy-intensive companies on a surcharge for the financing of renewable energy sources. Others like Poland already notified similar exemption schemes to the Commission in 2013 which are currently being analysed.

In some Member States the subject of high electricity prices is even more important than in others. As a matter of fact, these countries have more EAF than BOF and therefore are more electricity intensive. For example, in Spain this proportion is 70:30. To ease the additional burden on steel producers, in 2013, taxation on large consumers in Spain was lowered by the Government, in order to balance it with other EU countries. Spanish authorities have been working for the last two years on a deep reform of Spain's electrical regulation in order to reduce expenditure while ensuring a competitive price for the future.

Various Member States have schemes including reduced excise duty on electricity consumed by energy intensive industries. Poland has set by a working group on energy intensive industries under the Minister of Economy. It also introduced in 2013 an amendment to the Excise Tax Act enabling exemption from excise tax for natural gas sale intended for heating purposes in metallurgical processes.

*Action: Earmarking of the ETS revenues*

Some Member States like Slovakia and Poland have introduced schemes regarding the earmarking of ETS revenues.

*Actions: Decrease of the energy prices' gap and pooled electricity generation*

The Commission has not received information from Member States about activities under the above actions.

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<sup>55</sup> Directive 2009/29/EC

## 2.5. Innovation

European Technology Platforms (ETPs) are industry-led stakeholder fora that develop short to long-term research and innovation agendas and roadmaps for action at EU and national level to be supported by both private and public funding. Fora and networks such as ETPs are important because markets, while being powerful drivers of innovation, often do not function perfectly when it comes to generating ideas in an environment with a high degree of uncertainty and a need for coordination, which typifies the innovation process.

The European Steel Technology Platform (ESTEP) was reconfirmed as a 2020 European Technology Platform by the Commission in July 2013, after an evaluation conducted during the first semester of the year. This acknowledges the quality of the work conducted by the Platform since 2003, one of the first ETPs in the EU. ESTEP brings together the major EU Steel producers, along with stakeholders from the Steel value chain, research institutes and major European Universities. ESTEP has been projecting its vision of the future of society and of the seminal role that steel will continue to play in this future through its Strategic Research Agenda, first published in 2004, then updated in 2006 and fully rewritten in 2013. The Commission explains its vision for the renewed role of ETPs in a document published on 12 July 2013, "Strategy for European Technology Platforms: ETPs 2020". The nature and role of the new ETPs are spelled out there: ETPs are think tanks projecting the view of the future of a significant economic sector as seen by the industry, its value chain and its stakeholders. Furthermore, ETPs are organized in order to turn that projection into action plans that are implemented quickly and efficiently. They focus on R&D&I (R&D and Innovation) as a principal tool to achieve their ambition and help put Europe back on the growth track and contribute to the achievement of the 2020 goals of the EU. ESTEP will thus be part of the implementation of this 2020 vision and offer the view of the industry to the Commission. This increased role for the platform is even more significant now that the Horizon 2020 program is built up and progressively deployed. In addition ESTEP continues working closely with the Research Fund for Coal and Steel (RFCS) contributing to stimulate the European Steel Research Area.

<i>Action: The European Innovation Partnership (EIP) on Raw Materials</i>
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The Commission and other partners explored, within the context of the EIP on Raw Materials, and in particular its Strategic Implementation Plan (SIP), all options to foster innovation along the raw materials value chain. The SIP of the EIP on Raw Materials was adopted by its High Level Steering Group on 25 September 2013<sup>56</sup> and includes actions related to steel under both the technology and non-technology pillars.

The contribution – including the financial contribution – of the private sector is also necessary to achieve the objectives set by the European Union. This is the reason why a Call for Commitments was opened to all interested stakeholders to explain how they intended to support the implementation of the SIP.

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<sup>56</sup> <https://ec.europa.eu/eip/raw-materials/en/content/about-sip>

The list of “Raw Materials Commitments” was adopted on 26 March 2014. These are published on the EIP's dedicated website<sup>57</sup>. It is foreseen that the Calls for Commitments will be repeated every two years.

Some commitments are relevant to the steel sector. For instance:

- The commitment called FerroNi – on the development of Innovative Technologies for processing low grade, fine feeds for the primary ferronickel production industry. This could be of interest to the steel sector, in view of the key role nickel alloys play in the iron and steel industries. The aim of this proposal is the development of a novel and cost effective pyro metallurgical technology for the direct processing of fine Nickel containing feeds that will increase resource efficiency and productivity of the ferronickel production process.
- The commitment called NASSCO – on New Affordable Stainless Steel for extreme Conditions has the objectives of proposing a substitute solution with improved performance and longer lifetime, based on special stainless steel grades with intermetallic hardening precipitates.
- The commitment CRM\_InnoNet - the Critical Raw Materials Innovation Network whose overall objective is to create an integrated community that will drive innovation in the field of critical raw materials substitution for the benefit of EU industry. This proposal, which is based on an existing FP7-co-funded project will elaborate roadmaps for the substitution of critical raw materials in five key applications of economic importance to Europe and a series of policy recommendations. One of the areas treated will be the steel industry aspects of CRMs.

*Action: Horizon 2020 and SPIRE*

Due to the importance of R&D for the steel sector, in its Steel Action Plan, the Commission called for support, in the framework of Horizon 2020, in accordance with applicable state aid rules, R&D, demonstration and pilot projects for new technologies for cleaner, more resource and energy-efficient technologies. This also includes Public Private Partnerships (PPPs) fulfilling the relevant requirement.

The work programme of the new Research and Innovation Framework Programme "Horizon 2020" was published on 18 November 2013<sup>58</sup> and the first calls were launched on 11 December 2013 and closed on 8 April 2014. This is of interest to the steel sector given the importance of raw materials for its competitiveness.

Raw materials play an important role in the Work programme 2014-2015 of Horizon 2020, as they fall within one of the so-called ‘Societal challenges’. The Industrial Leadership pillar and the Societal Challenge 5 (SC5), called "Climate Action, Environment, Resource Efficiency and Raw Materials" are most relevant. The SPIRE (Sustainable Process Industry through Resource and Energy Efficiency) Calls with over 60 million euros for 2014<sup>59</sup> were

<sup>57</sup> <https://ec.europa.eu/eip/raw-materials/en/call-commitments>

<sup>58</sup> [http://ec.europa.eu/research/participants/data/ref/h2020/wp/2014\\_2015/main/h2020-wp1415-climate\\_en.pdf](http://ec.europa.eu/research/participants/data/ref/h2020/wp/2014_2015/main/h2020-wp1415-climate_en.pdf)

<sup>59</sup> <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/calls/h2020-spire-2014.html>

published on 11 December 2013 and closed on 20 March 2014. The Calls for 2015<sup>60</sup> with a budget of 77 million euros are open until 9 December 2014.

Furthermore, the Energy Challenge of the Horizon 2020 Work Programme 2014-2015 contains a topic on “Enabling decarbonisation of the fossil-fuel-based power sector and energy intensive industry through CCS” (with an indicative budget of 4-9 M€ per project). This includes the steel sector.

*Action: Research Fund for Coal and Steel (RFCS)*

Beyond Horizon 2020 it is important not to underestimate the Research Fund for Coal and Steel (RFCS) which supports research projects in the coal and steel sectors. The RFCS has its own legal basis and is managed by the European Commission separately from the European Union's research framework programmes. The projects cover: production processes; application, utilisation and conversion of resources; safety at work; environmental protection and reducing CO2 emissions from coal use and steel production.

The revenues generated annually from the remaining assets of the European Coal and Steel Community (ECSC) are used to support the RFCS research programme activities. The budget is distributed between coal (27,2%) and steel (72,8%) and is mainly used to co-finance successful proposals; a minor amount is also allocated to programme support activities (evaluations, monitoring, etc.). Every year around € 55 million is made available to universities, research centres and private companies to fund projects with roughly three out of every four funded projects being in the steel sector.

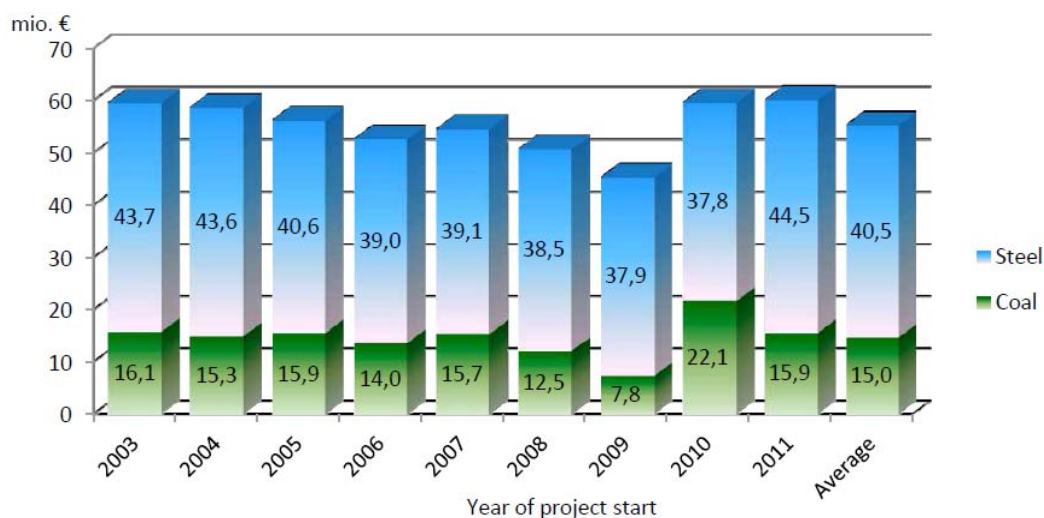


Fig: RFCS Funding

In September 2013 the Commission published a Monitoring & Assessment (M&A) report<sup>61</sup> of the RFCS Programme (covering the period 2003-2010). The independent experts who carried out the M&A exercise state the fund has continued to produce benefits for industry. The main benefits reported by the beneficiaries of the RFCS projects were cost reductions,

<sup>60</sup> <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/calls/h2020-spire-2015.html>

<sup>61</sup> [http://ec.europa.eu/research/industrial\\_technologies/pdf/monitoring-assessment-report\\_en.pdf](http://ec.europa.eu/research/industrial_technologies/pdf/monitoring-assessment-report_en.pdf)

increased productivity, energy saving, new applications, new solutions and new market share. In addition, environmental benefits and a positive impact on health, safety and working conditions were also identified. A quantitative assessment was made for a selected subset of projects with direct and non-ambiguous financial benefits. This assessment has resulted in the estimate that from an initial investment of 53 M€/year (with 31 M€ of RFCS co-funding), the actual cumulative benefit amounted to about €100 M€/year.

While preparing the call for proposals, annual priorities of the Research Programme are discussed with the main stakeholders and published. For 2014 these priorities were published in March.<sup>62</sup>

The Commission also called on focusing financial support more on the up-scaling and piloting phase instead of only focusing on the research phase. This is reflected in the importance given to the innovative aspects of the proposals submitted for evaluation (RFCS evaluation criteria).

*Action: European Investment Bank (EIB) financing*

The EIB has recently received financing applications under the the Risk Sharing Finance Facility (RSFF). It is an innovative credit risk sharing scheme jointly set up by the European Commission and the EIB to improve access to debt financing for private companies or public institutions promoting activities with a higher financial risk profile in the fields of research, technological development, demonstration and innovation investments. One application comes from a steel company - Danieli Group which applied for EIB support for a project concerning the company's research and development with the aim of improving the quality of ferrous and non-ferrous products, and the optimization of associated production processes. The total cost of this project is 130 million EUR including the EIB's share of 60 million EUR.

*Member States*

Wallonia adopted the project "Reverse Metallurgy" in April 2014. This project is based in Liège and will develop actions focusing on smart steels, new surfaces etc. Many good practices can be identified in Belgium such as BIOLIX<sup>63</sup> or .PHOENIX<sup>64</sup>. Sweden decided to support research related to mining, the mineral and steel industries with the amount of over 200 million SEK (22 million EUR) in 2013-2016. The UK government has provided support to Tata Steel - the UK's largest steelmaker - to encourage it to retain strong R&D facilities in the UK. France has also mobilized important means and launched the Institute for Research and technology M2P for materials, Metal industry and Processes in October 2013.

**2.6 The social dimension: restructuring and skill needs**

*Action: Quality Framework for anticipation of change and restructuring*

The Commission is actively involved in identifying good practice and promoting an anticipative approach in restructuring, among other, through the HLG. Important frameworks

<sup>62</sup> [http://cordis.europa.eu/coal-steel-rtd/anniversary/priorities-steel-2014\\_en.pdf](http://cordis.europa.eu/coal-steel-rtd/anniversary/priorities-steel-2014_en.pdf)

<sup>63</sup> [www.groupecomet.com](http://www.groupecomet.com)

<sup>64</sup> The goal of the project is to convert the ultimate organic part of the waste from crushed metal into liquid fuel for the steel industry



were adopted in 2013 setting out best practice in the field of anticipation of change and restructuring<sup>65</sup> as well as internship<sup>66</sup>.

The Commission operates the European Restructuring Monitor (ERM)<sup>67</sup> to learn about restructurings which involve the creation or destruction of at least 100 jobs, or affect 10% of the workforce at sites employing more than 250 people. The latest report for 2013 revealed that within the manufacturing sectors, employment losses have been greatest in basic, low-tech subsectors such as: basic metals; textiles; clothing and leather as well as wood, paper and printing.

The restructuring operations recorded by the ERM in the basic metals sector between 2003 and 2013 show 206 000 announced job losses and 52 000 announced job gains, thus amounting to a net loss of 154 000 jobs.

The Commission adopted in 2013 the Quality Framework for anticipation of change and restructuring<sup>68</sup> which sets out certain principles and good practice of anticipation of change and management of restructuring activities within companies, as well as by public authorities, which should be better identified and monitored. These should, in particular, facilitate investment in human capital and lead to the reallocation of human resources to activities with high growth potential and quality jobs as per the Europe 2020 strategy, while increasing the quality of working conditions.

*Action: Promote youth oriented recruitment processes*

The steel sector lacks attractiveness for young people to work there. This is often due to a lack of information. Fewer than 50% of youths say that when they choose their professional orientation they have a good understanding of which educational paths lead to professions with job openings and good wage levels<sup>69</sup>. Therefore, the steel sector needs to establish structured cooperation mechanisms with social partners and public employment services to ensure the availability and promotion of adequate career guidance services that reach out to school students. In this context traineeships can have a key role in increasing the access of young people to this part of the labour market. Traineeships can bridge the gap between the theoretical knowledge gained in education and the skills and competences needed at a workplace and in this way increase the chances of young people to find a job.

The Quality framework for traineeship<sup>70</sup> adopted in early 2014 is an EU-level quality framework. It contributes to the increase in the quality of traineeships. Promoting good quality traineeships contributes to meeting the objectives of the Europe 2020 strategy, in terms of facilitating good labour market transitions and promoting and facilitating geographic mobility for young people. This could also help address the lack of attractiveness for young people to work in the steel sector.

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<sup>65</sup> COM(2013) 882

<sup>66</sup> SWD(2012) 99

<sup>67</sup> <http://www.eurofound.europa.eu/emcc/erm/index.htm>

<sup>68</sup> COM(2013) 882 final

<sup>69</sup> McKinsey Centre for Government, *Education to employment: designing a system that works*, 2014

<sup>70</sup> Council recommendation on a Quality Framework for Traineeships 10 March 2014



*Action: European Globalisation Adjustment Fund (EGF)*

The European Globalisation Adjustment Fund<sup>71</sup> (EGF) (renewed for the period 2014-2020) can be used in case of significant downsizings. The EGF has a maximum annual budget of EUR 150 million for the period 2014-2020. It can fund up to 60% of the cost of projects designed to help workers made redundant find another job or set up their own business. As a general rule, the EGF can be used only where over 500 workers are made redundant by a single company (including its suppliers and downstream producers), or if a large number of workers are laid off in a particular sector in one or more neighbouring regions.

*Action: European Skills Council*

European Sector Skills Councils (ESC) have been promoted by the Commission with a view to acquiring a deeper understanding of skill needs at sectoral level. The "Employment Package"<sup>72</sup> called for higher investment in skills to better anticipate economic change, skills shortages and swiftly address skills mismatches. The Commission supports the creation of European Sector Skills Councils based on feasibility studies, as announced in the Europe 2020 flagship initiative "An Agenda for New Skills and Jobs"<sup>73</sup>. In this respect a call for proposals published was published in 2013 with a deadline of 15 January 2014. Unfortunately no request for the launching of a Steel ESC was presented in the framework of this call.

*Action: An inter-service task force on closures or downsizing*

The Commission is ready to launch (on a clear request from trade unions and/or national authorities) an inter-service task force to study and follow up the main cases of steel plant closures or significant downsizing, so as to streamline the use of the relevant EU Funds. So far no such request has been received by any steel producer.

*Member States*

*Action: Retraining and re-skilling*

Italy pays special attention to vocational education in the steel industry through its unique Steelmaster course. It was founded in 1996, as a high-level course for the "middle management" of the Italian steel industry and manufacturing companies. The course is in its seventeenth edition. Last year's edition was a "special" one due to the 50<sup>th</sup> anniversary of the creation of the Centro Sviluppo Materiali (CSM). The main objective of the course is to provide a wide range of skills that enable participants to have a complete picture of the steel industry at national, European and international levels by providing the operating tools. In 2013 one of the theses was about the Steel Action Plan and its implementation.

Poland has established a National Training Fund to support employers in financing education and training in order to avoid the loss of jobs because of lack of skills in a dynamically changing economy. Funds are estimated at 200 million PLN (50 million EUR) and priorities (e.g. sectors) are to be decided with social partners.

<sup>71</sup> <http://ec.europa.eu/social/main.jsp?catId=326&>

<sup>72</sup> COM/2012/0173 final

<sup>73</sup> <http://ec.europa.eu/social/main.jsp?catId=958&langId=en>

The Czech Ministry of Industry and Trade with the participation of the Czech Chamber of Commerce and the Confederation of Industry of the Czech Republic prepared a number of proposals to increase technical knowledge and skills of the population from pre-school children to university students and unemployed. Some of these suggestions, mainly tax credits for employers cooperating with schools, were implemented. As of 1 January 2014 tax credits for companies which want to cooperate with training institutions are part of the Income Tax Act. It includes measures to stimulate employers' cooperation with high schools and universities.

*Action: Use of structural funds*

Some regional authorities have identified in the next programming period steel as a priority area in their operational programmes and smart specialization strategies. The number of regions having made that choice is still unknown since the process of submission to the European Commission is still ongoing.

*Action: Use of EGF*

So far the steel sector has only marginally benefited from EGF. There was only one successful application approved in Austria - Steiermark-Niederösterreich<sup>74</sup>. Three others are under assessment<sup>75</sup> in Belgium and Romania.

*Action: Labour flexibility schemes*

To ease the financial burden on companies in times of crisis, few Member States introduced the possibility of flexible but temporary working arrangements. These are already in place in Germany (Kurzarbeit) and in Italy ('contratto di solidarietà' covering more than 3 000 workers in Piombino and Terni). Unfortunately not all Member States have this possibility due to lack of proper regulations in their social law.

*Industry and trade unions*

Different restructuring measures have been taken in certain companies. Voestalpine has established a fund for dismissed employees. ThyssenKrupp has a strategic planning tool for employment. ArcelorMittal has strengthened workforce planning. Eurofer together with industriAll have worked on a pilot project for green employment.

Steel companies together with trade unions through the activities of ESTEP's Working Group 'People', contribute to ensuring the supply of highly-skilled scientists, technologists, innovators and managers who will take the European steel industry forward and provide new sources of competitive advantage. It does this by promoting an education system that has the capacity to educate and train new workers, and offer existing workers the lifelong learning opportunities to maintain excellence. With a view to improving the labour-market's relevance in vocational education and training, the steel sector should support reform efforts in those Member States that are about to introduce more work-based learning, and in particular the apprenticeship system, into their VET systems. The steel sector is also invited to join the

<sup>74</sup> EGF/2010/007 AT Steiermark-Niederösterreich

<sup>75</sup> EGF/2012/010 RO Mechel, EGF/2013/002 BE Carsid, EGF/2013/0007 BE Duferco-NLMK and ArcelorMittal

European Alliance for Apprenticeships and to make pledges to increase the quality and supply of apprenticeships<sup>76</sup>.

A major activity of the Working Group is the GT-VET project – 'Greening Technical Vocational Education and Training'. The project was exploring how vocational education and training (VET) pathways meet environment and health and safety skill needs, which are key for boosting the global competitiveness and sustainability of all European industries. The aim was to develop a transferable European training module that archives identical learning outcomes in the field of green skills and sustainable awareness. It was tested within four steel companies and Member States (United Kingdom, Poland, Italy and Germany).

### 3. Conclusions

In the one year since the adoption of the Communication, about half of the actions foreseen in it have been implemented either by the Commission, Member States or industry in the various areas. Moreover, the fact that the economic situation is improving has led to a higher consumption of steel in some of the main steel using sectors, such as automotive, and therefore resulted in a better outlook for the steel sector overall. No new production sites closures with corresponding job losses took place since the adoption of the Action Plan in June 2013.

In addition to implementing its actions, the Commission has promoted its Steel Action Plan and disseminated the information via the Member States, using the already existing platforms such as the Enterprise Policy Group (EPG)<sup>77</sup> in June 2013 and March 2014. Furthermore, the Commission also used the STIS (Steel, Textiles and other Industrial Sectors) platform dedicated to trade issues to present state of play on the implementation of its Steel Action Plan on 19 November 2013.

The Commission also presented the implementation of the Steel Action Plan to the Competitiveness and Growth (COMPCRO) Working Party of the Council<sup>78</sup>, under the Lithuanian Presidency in 2013 and under the Greek Presidency in March 2014.

The constructive discussions in the meetings of the High Level Group have highlighted the usefulness and the need to continue the dialogue among major stakeholders (from both the private and the public sector, as well as from civil society) in this strategic industrial sector.

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<sup>76</sup> [http://ec.europa.eu/education/policy/vocational-policy/alliance\\_en.htm](http://ec.europa.eu/education/policy/vocational-policy/alliance_en.htm)

<sup>77</sup> The EPG has been set up in 2012 to get advise on enterprise, SME and industrial policies. It consists of Directors Generals from Member States' public administrations who are responsible for industrial and enterprise policy issues.

<sup>78</sup> This group treats matters relating to the single market, business and industrial issues, better regulation and overall growth strategy for the EU. It primarily prepares council conclusions and recommendations in the policy area, which are later treated in the Competitiveness Council.