



## **ORGALIME**

### **Position paper on the eventual extension of safeguard measures for steel products**

**3 September 2002**

#### **1. Introduction**

ORGALIME speaks for 31 trade federations representing some 100,000 companies in the mechanical, electrical, electronic and metalworking industries in 31 European countries. These industries employ some 7.6 million people and account for 1200 billion Euro of annual output, which is a quarter of the EU's output of manufactured products and a third of the manufactured exports of the European Union.

The engineering industries that Orgalime represents are by far the major users of steel in the European Union, with an estimated consumption of some 100 Million tons per year.

Orgalime believes that an open European market is the main guarantee for achieving competitive and fair prices for all, both steel users and steel producers, who, like all of industry, must today operate in a highly demanding and competitive environment.

The existence of a strong and competitive European steel industry is important for European steel users. In principle, the European steel industry, as any other European industry, should obtain protection from unfair competition, if there is a legitimate justification for it.

We believe, though, that any intervention affecting the basic principle of open and free markets must be sufficiently justified after analysing all underlying factors and should be limited for a short period of time.

In this position paper, ORGALIME analyses the following essential points:

- The analysis presented in the Commission Regulation 560/2002, which served as a basis to justify the introduction of the temporary safeguard measures
- The experience accumulated by our industry since the introduction of the temporary safeguard measures

and concludes that the safeguard measures, which were imposed on a temporary basis by the Commission last 27. March 2002, are not justified at present and should not be extended.

## **2. Analysis of the EC Regulation 560/2002**

### **a. Increase of the actual imports**

Paragraph (2) of EC Regulation 560/2002 states, "The Member States concerned claim that there have been recent substantial increases in imports of certain steel products".

ORGALIME believes this statement is contradicted by the following:

- According to EUROFER (representative at a European level of the European steel industry), imports from third countries into the EU amounted, in the first three months of the year 2002, to 2,571 Mill. Tons. In comparison with the same period of the previous year, this is a decrease of 17,3% (21,4% in case of flat products and 7,4% in long products).
- According to Eurostat statistics, steel imports into the EU in the first four months of 2002 decreased dramatically: Eurostat reports a 14,1% decrease in Italy and a 20,6% decrease in Germany in comparison with the same period the previous year.
- However, for the most relevant period, which is since the US measures entered into effect (from March 2002 onwards), there are no complete statistics available

ORGALIME therefore draws, the conclusion that the assumption of paragraph (2) of EC Regulation 560/2002 that substantial increases in imports happened before the EC Regulation was issued, is not sufficiently supported by evidence.

### **b. Diversion of imports from the USA into the EU**

Paragraph (52) of EC Regulation 560/2002 states that "around 15 million tons of steel products ... are covered by the US measures and risk being diverted to the Community market".

As ORGALIME already pointed out in our Position paper of 22 April 2002, we consider this is an unrealistic estimate. Moreover, other data related to the quantities potentially affected by the US measures were overestimated.

As far as the extent of the diversion into the European market is concerned, statistical evidence on how imports have developed since the US measures entered into effect is largely missing. Nevertheless, specialist consultants believe that, since the introduction by the US of its measures, the level of diversion has been minimal. Neither has the US-market been closed, nor has the European market become the only market to which steel could be potentially diverted.

- According to the independent consultant MEPS (May 2002): "*We estimated that approximately 10 million tonnes of US finished steel imports were at risk from the Section 201 decision. Exemptions already granted have reduced this figure substantially and more are to follow. The final outturn may be 6/7 million tonnes based on last year's imports. The overall impact of US trade*

*restriction has been minimal so far. Several importers are taking the extra duty and maintaining supply. Mills not affected by the decision are increasing their sales volumes. The net effect of these actions probably equate to no more than 2 million tonnes "*

- Also, CRU International reports (31 May 2002): *"Hitherto, the impact of trade diversion has had a limited impact on prices, largely because the price differential between the US and overseas markets has increased to such an extent the US imports remain viable, even after tariffs."*

### **c. Injury for the European steel industry through increasing imports**

The direct injury to EU steel producers has also been less serious than first implied.

On the one hand, price increases in the US are allowing European steel producers to continue exporting profitably to the USA, even after paying additional duties.

On the other hand, many exceptions have been granted by the US and further exceptions are to come. In this context, we note that, for instance in Germany and according to the German Statistical Office, German steel exports to the USA actually increased during the first quarter of 2002 to up to 263.000 tons, or an 18,2% increase, as compared with the previous year.

Public statements issued by major steel producers confirm this; as an example, the General Manager of Arcelor recently stated, "the financial consequences (...of Section 201) will be much less important than what could have been anticipated.... I'd say it was more important for the U.S. steel consumers than the European producer."

### **d. Causal link**

Paragraph (45) of the EC Regulation 560/2002 states that the increase in imports is the substantial cause of the threat of serious injury to the Community producers and relates the injury to decreasing prices, benefits and jobs. Further, the Commission announces that a more detailed examination of all factors, which have, or may have, contributed to the injury would be undertaken.

In relation to this, ORGALIME notes that:

- Annex 1 of the Commission's Regulation indicates that for almost all steel products, notwithstanding increases in imports in 2000, steel prices also increased. For instance, for non-alloy hot rolled coils, imports increased by 25,6% and the selling price of EU producers increased up to 22,5%.
- On the other hand and taking the example of Germany, during 2001, steel prices decreased in a period where imports from third countries decreased as well (from 15,3 Mill tons in 2000 to 14,2 Mill. tons in 2001).

Therefore, ORGALIME concludes one cannot assume a direct causal link between steel imports and steel prices.

#### *Other influencing factors*

Indeed, there are other factors that influence the steel price formation in the EU, including, among others: the situation of the internal EU steel production, the internal EU steel demand (taking into account the effects of stocks) and the differences in the international price situation.

It was these other factors (considerable stocks and a rather poor economic situation) which, according to EUROFER, led to a decline of steel consumption of 2,3% in 2001 in comparison with 2000. Despite this decline (which was clearly perceptible by the second Quarter 2001), European steel producers maintained a very high production level and only began reducing production by the fourth quarter 2001. It is therefore logical to consider that high levels of production may have contributed to the pressure on prices.

Indeed, in July 2002, an Eurofer's market report recognises: "The production cuts made in the first semester... have not yet been sufficient to re-establish a balance between supply und demand."

#### *Conclusion*

The European steel industry, like any other industry, is naturally affected when offer and demand are not balanced. Due to the extreme cycles in the steel market, we recognise it is sometimes not an easy task to achieve a balance between supply and demand, but in our opinion, it is clear that declining prices and profits are not caused exclusively by, or automatically related to, increasing imports.

Furthermore, the assumption made by the Commission in paragraph 45 of EC Regulation 560/2002 that: "Under normal market conditions, the Community industry has no excess capacity" is somewhat simplistic and does not take into account the complexity of the different factors influencing the market.

### **3. Experience accumulated by our industry since the introduction of the temporary safeguard measures**

#### **a. Development of steel prices**

The steel users in the EU are experiencing drastic steel price increases since March 2002. These price increases refer specially to steel plates. The prices increased already in the second and third quarter 2002, up to 30 and 40 €/t respectively. This development can be seen from the graphs of steel prices included in Annex I.

Some major European steel producers have already announced further price increases for the fourth quarter 2002 and beyond.

Such a steep price increase in such a short period is very exceptional and exceeds what market analysts and even steel producers would have considered reasonable even as recently as February 2002.

Steel users have difficulties to understand such a price evolution in a period of general economic downturn and difficult market circumstances for most economic actors, including the major user industries, and sufficient availability of steel in the world market.

One must inevitably ask the question as to how far the EC's temporary safeguard measures have influenced prices, even if other factors have no doubt played a role, including: production cuts by many steel producers, large stocks accumulated by traders and users due to expected price increases and the low price level for many steel products in the beginning of the year.

Yet another relevant factor is the increasing concentration on the side of the steel producers, which ORGALIME considers very worrisome. We fear that the merger of some of the major European producers into Arcelor has clearly reduced price competition within the EU and may well have facilitated recent price increases.

We also note that since US Section 201-measures entered into force, steel prices in the US have rocketed. Due to the international character of the steel market, this has facilitated the price increases in Asia and EU. As a consequence we believe that, in general, the steel users and not the steel producers have suffered most from the US measures.

#### *Conclusion*

Although the price increases can be related to many causes, it can be implied that the safeguard measures in the EU have contributed to the existing price development. Even the Commission in paragraph 60 of the Regulation 560/2002 admits: "..., and it is clear, that without measures, prices would be lower."

#### **b. Steel supply/ Availability**

Since the EU-safeguard-measures entered into force, a number of companies from the industries represented by ORGALIME have reported that some steel suppliers from third countries have stopped supplying the EU market, due to the fact that the EU-Regulation has been interpreted as a barrier to entry into the EU market.

Among the perceived barriers were the requirements for cash deposits to be provided by external suppliers.

ORGALIME welcomed the prompt steps taken by the Commission to partially ease this requirement by limiting it to imports, where the quota utilisation is above 75%.

Nevertheless, we witness with great concern that, for some categories of steel, including some as important as electrical steel and alloy hot rolled flat products, this level is almost reached and therefore cash guarantees will, in principle, soon be re-introduced.

ORGALIME considers cash guarantees to be a trade barrier and is firmly against its re-introduction even in the cases where the quota is almost utilised.

In the main, however, there have been no availability problems for steel in the EU.

#### **4. Conclusion**

To conclude, Orgalime believes that:

- The temporary safeguard measures should not be extended.
- In case, where an extension of the safeguard measures should be considered, the existing import quotas should be revised. For such a revision, the objective should not be the „status quo“ existing during the few last years. On the contrary, existing quotas should be revised upwards to allow for potential growth in world trade.
- At the same time all possibilities of trade law should be used in order to allow „country quotas“ instead of the actual approach "First come, first serve".
- ORGALIME believes the Commission Regulation 560/2002 is not sufficiently supported by evidence in some of its points. The causal link between the increases in imports and injury to the EU steel industry is not sufficiently proven. Moreover, there is not sufficient statistical evidence for the relevant period since March 2002 and the development of the EU steel market does not in our opinion plead for a special protection regime for the steel industry.
- We are today confronted with the current and foreseeable price increases in the EU and with an increasingly alarming low level of competition among European steel producers. Even larger engineering companies in an industry, which is characterised by a large number of SMEs, are becoming sensitive to this situation. ORGALIME stresses the importance of fair competition and points out that open markets are the only guarantee for fair and competitive prices.