



ORGALIME POSITION PAPER ON STEEL 30 June 2004

Orgalime speaks for 33 trade federations representing some 130,000 companies in the engineering sector (mechanical, electrical, electronic and metalworking industries) of 23 European countries. These companies, the great majority of which are SMEs, employ some 7 million people and account for 1175 billion euros of annual output, which is a quarter of the EU's output of manufactured products. The engineering industry is the largest manufacturing sector in the EU representing some 26% of manufacturing output and a third of the EU's exports of manufactured products.

The industry is also the main consumer of steel in Europe with an average annual steel consumption of some 100 Million tons/year, which represents some two thirds of total steel consumption in Europe.

In 2003, for the second year running, engineering output dropped. Total output fell by some 1.3% with a consequent impact on employment. In 2004, we expect a modest recovery with output expected to rise by some 1.8%.

A flat demand for engineering products...

If the engineering industry has been faced in the last two years by the generally low demand for capital goods, as investment in manufacturing industry has declined, particularly on the internal market, our problems have been compounded by the steep rise in steel prices, even as demand was low. As the share of steel in the cost of inputs into engineering products varies from a low of 10% up to around 70%, for some sectors of our industry, fluctuations in steel prices and the steel market have a major impact.

But not for steel or steel prices

Today, our industry is not only confronted with historically high and fast rising prices of steel in spite of flat real steel consumption, but companies are also faced with increasingly unreliable supplies: companies are not finding the necessary quantities of steel, but even where contracts exist, these are increasingly not respected in terms of prices, volumes and other contractual terms as, for instance, payment delays.

This situation, which is especially acute for low-end products, is having a severe effect on engineering and metalworking companies and has already led to the painful paradox where companies have recently been driven into bankruptcy in spite of having full order books.

Further, steel prices are also influenced by speculative movements across the supply chain, which add to concerns about steel supply shortfalls, thereby contributing to further increase the pressure on prices.

With the increasing concentration in the steel industry in Europe, engineering companies, most of which are SMEs, are often faced with a very limited supply base, leaving them little room for manoeuvre when faced with fast changing market conditions. As examples of sectors, which are being hit, we can cite suppliers to the automobile industry which are major clients of the engineering industry and the constructional steelwork industry, which counts public authorities among its major purchasers. Engineering SMEs are therefore being caught between major purchasers and major suppliers, with very limited room, if any, for passing on steel price increases onto their clients.

The “China” effect

Orgalime is aware that the present rapid development of certain markets, such as China, is causing some disruption in the supply of raw materials with which the Commission is at present dealing (for example in the area of supply of coke) and for which we are grateful.

We are, nevertheless, concerned by the lack of transparency in the pricing of steel. It is very difficult for steel users to obtain reliable information on market developments, as well as on the justification for steel price increases, given the fast changes and contradictions in the factors affecting costs in the market. Some of these contradictions include the fact that, at present, while some developments point in the direction of a certain stabilisation of the market (such as, the recent slow down in the boom in the Chinese economy, the agreement with China on the export of coke, the stabilisation of scrap prices and the stabilisation of steel consumption), rises in steel prices are still announced, at least until the end of the year.

As the engineering industry is a major strategic sector which not only is a major employer, but is also the key technology and equipment supplier to all other sectors of industry and of society, Orgalime believes that a number of actions, which are listed hereafter, need to be taken.

Orgalime position

Orgalime requests that the Commission should:

1. Ensure more transparency and independence in its collection and analysis of statistics on production volumes, stocks and on the price structure of steel (iron ore, coke, ferroalloys, scrap, energy costs and transport costs), as well as on global trade flows and the market situation of both steel and raw materials, especially for China.
2. Achieve a fair balance when dealing with steel issues: we request that the Commission should, when producing reports on steel, as well as when taking positions, ensure that these take into account the views of all stakeholders in the market.
3. To facilitate this exchange of views, we believe that it is necessary to introduce formal representation for steel user industries in the European Commission both at the level of enterprise and trade issues. This would establish a fair balance between the representation of the industry stakeholders operating in the steel market.
4. In the context of an increasingly globalised economy, we believe that the present measures taken by EU authorities to “mange” the steel market are increasingly obsolete. While the engineering sector operates today in a global competitive market and in accordance with WTO rules, it is vital for the competitiveness of our industry that essential parts of our supply chain should operate under free trade conditions. We count on the Commission to provide their support in the area of free trade (including for raw materials), which has brought significant benefits to the EU economy as a whole.

5. We also believe it is important that efforts towards further liberalisation of trade should continue. We therefore believe that existing quotas for steel (Russia, Ukraine, Kazakhstan) need to be reconsidered, and that any antidumping measures should be carefully analysed and due consideration should be given to the interests of European steel users.
6. Finally we feel that action to possibly phase out, what some term as “inefficient steel production capacity” should be left up to the market, which should be able to regulate its output on the basis of demand in the market. Orgalime believes that it is vital to keep up the steel production capacity in order not to create an artificial lack of materials.

Conclusions

Orgalime welcomes the Commission’s energetic policy in the area of trade and in the development of an industrial policy for manufacturing industry. As the largest manufacturing sector, and one of the key sectors for achieving the Lisbon agenda, we would welcome the establishing of a balanced approach to dealing with the long term interests of our industry in this area.

We believe that now is the time for the EU to take a further steps in ensuring the liberalisation of the steel market, one of the few areas of trade where the EU is still, and, in spite of the evident good health of the sector, intervening to manage issues which should be left up to the market to manage, albeit in the normal regulatory framework governing companies competing on the internal market.