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WORKSHOP ON STEEL TRADE ISSUES

THE SITUATION IN STEEL TRADE: COUNTRY REPORTS  
STATEMENT BY MR. JACQUES AARTS

*The Workshop will be held in Paris on 27-28 May 1998.*

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**WORKSHOP ON STEEL TRADE ISSUES**  
**THE SITUATION IN STEEL TRADE: COUNTRY REPORTS**  
**STATEMENT BY JACQUES AARTS<sup>1</sup>**  
**HEAD OF UNIT, DIRECTORATE GENERAL III,**  
**EUROPEAN COMMISSION**  
**PARIS, 27-28 MAY 1998**

1. Mr. Chairman. Thank you very much for the invitation to speak before this distinguished audience.
2. My speech will concentrate on three main issues:
  - the growing role of concentration and specialisation in the European steel industry and the beginning of a global player scenario
  - the role of trade for the Community steel industry
  - the role of the European Union in assisting the restructuring of the Central and Eastern European steel industries

**Concentration and specialisation**

3. Since the privatisation of British Steel in 1988, the European iron and steel industry experienced a true shake-up of its structure. A wave of concentrations and privatisations occurred. The globalisation of the iron and steel industry also made its entry in Europe. Several non-European investors took over companies in Europe, while certain European producers invested outside the Community.

***Concentrations and Joint-venture***

4. Until the end of the eighties, the concentrations in the iron and steel sector took place at national level, with some exceptions like Hoesch/Hoogovens (Estel), which failed at the beginning of 1981, and the group Arbed (Sidmar, Saerstahl). Indeed, the iron and steel industry first of all concentrated its activities at national level. Examples are the creation of groups such as Usinor/Sacilor, British Steel, CSI etc. It is only since the nineties that the first attempts of creating cross-border groups are observed.

5. Several producers created joint-ventures, not only with other European factories but also with non-Community companies.

6. The degree of concentration in the iron and steel industry differs by product. In terms of production, the concentration ratio of the six largest producers shows that the copper and aluminium sectors are much more concentrated than those of steel:

**Share of 1996 production of the first six largest European producers in the sector of**

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1. The views expressed in this paper are those of the speaker and do not represent the official position of the Commission or of the European Community.

STEEL	ALUMINIUM	PLASTIC	COPPER
53%	75%	47%	90%

7. Still in terms of production, a comparison between the American, Japanese and European iron and steel industry, shows that the Japanese iron and steel industry is much more concentrated than its direct partners:

**Share of the production of the first six ECSC producers (1997)**

ECSC-15	UNITED STATES	JAPAN
53%	54%	66.5%

8. Analysing the market share by product, the concentration in certain cases is important:

9. Market share for the three major European producers of :

Coils	>50%
Cold rolled	>40%
Tin plate	>60%
Galvanised	>60%
Stainless sheets	>65%
Heavy sections	>60%
Wire rod	<50%
Rebar	<25%

10. After the recent concentrations, the ranking of the 10 big EU steel producers changed:

RANKING 1990 Crude Steel production 1990		RANKING 1997 Crude Steel production 1997	
Group	Mt	Group	Mt
Usinor/Sacilor	16.5	Thyssen-Krupp after MERGER	17.5
British Steel	13.0	British Steel	17.0
Ilva	11.0	Arbed-ACERALIA (Spain)	17.0
Thyssen	10.8	Usinor-Sacilor	16.1
Arbed	7.3	Riva	14.8
Hoogovens	5.0	Ispat	10.9
Cockerill Sambre	4.6	Cockerill Sambre	6.8
Klöckner	4.0	Hoogovens	6.7
Hoesch	3.6	Hoesch/ Krupp/ Mannesmann	5.1
Krupp	3.2	Voest-Alpine	4.7

11. Concentrations are not limited to the production sites. In the field of trade (including the Steel Service Centers) and of scrap collection, one notes a considerable increase in the level of concentration, including vertical integration between traders and producers.

### **Globalisation**

12. For several years, the European producers have been seeking allies in the whole world, either in the form of joint-ventures, or by buying factories outside the Community .

13. Not only the European producers invest in third countries. The contrary phenomenon appears as investors from outside the European Union start to be active in the European Union. For example:

- ISPAT INTERNATIONAL assets in the European Union: Irish Steel/Hamburger Stahlwerke/Long products mill of Thyssen.
- DUFERCO= Swiss-Italian (Ferdofin, Clabecq)
- Co-Steel= USA (Sheerness)
- Techint Siderca= Brazil/Argentina (Dalmine)

14. Despite this globalisation at the level of participations, EU steel exports to third countries have hardly changed in the last 15 years. Imports towards the European Union, on the other hand, doubled in these 15 years to reach 16 million tonnes in 1997.

### **The trade <sup>2</sup>**

15. In 1997, exports reached 27.5 Mt, down 7% from around 30 Mt on 1996.

16. Imports of steel products rose to 16.2 Mt, up 13% on 1996.

### ***Exports***

17. The European Union exports in 1997 were 27.5 Mt, down from 29.9 Mt in 1996

- 30% to North America ( 8.3 Mt)
- 20% to Africa and Middle East (5.4Mt)
- 20% to Asia & Pacific Area ( 5.2 Mt)
- 20% to other Western Europe (5.2Mt)
- 7% to the Central & Eastern Europe (1.9 Mt)
- 3.5% to South America (1.0 Mt)
- 2.1% to New Independent States and Former Soviet Union(0.6Mt)

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2. Source: Eurostat COMEXT/ OECD products coverage.

18. In term of products:
- 8 % are semifinished steel (2.3 Mt)
  - 47% flat products (12.9 Mt)
  - 28% long products (7.8 Mt)
  - 17% pipes, tubes and fittings (4.6Mt)
19. Looking at the balance for the flat products: the European Union is mainly a net exporter of
- Cold rolled sheets
  - Tin plate and coated sheets

### ***Imports***

20. In 1997 the imports of steel products in the EUROPEAN UNION were 16.2 Mt:
21. Out of the 16.2 Mt of EUROPEAN UNION total imports in 1997:
- 41% from CEEC (6.7 Mt)
  - 20% from the New Independent States & former Soviet Union ( 3.3 Mt)
  - 20% from the other Western Europe (3.2 Mt)
  - 5.7% from Africa & Middle East (0.9 Mt)
  - 4.8% from South America ( 0.8 Mt)
  - 4.3% from Asia and Pacific Area ( 0.7 Mt)
  - 3.5% from North America (0.6 Mt)
22. In term of products:
- 15% are semi-finished steel (2.5 Mt)
  - 50% are flat products (8.2 Mt)
  - 24% are long products (3.8 Mt)
  - 11% are pipes tubes and fittings (1.8 Mt)
23. Exports from Central and Eastern Europe to the European Union have risen in recent years, principally because the fall of the Communist bloc sharply reduced steel consumption in those countries and because of low or non existent tariff barriers in the European Union.

24. Before 1992, the regional market (Central and Eastern Europe and USSR) was the main export market. Since then, the Central and Eastern European countries have found other markets, inter alia the European Union market, to help them finance the extensive restructuring underway.

25. In 1992 25% of exports from CEEC were destined for the EUR12 countries.

26. In 1997 44% of CEEC exports of steel products to EUR15 countries.

### **The role of the European Union in assisting the restructuring of the Central and Eastern European steel industry.**

#### **Enlargement and steel**

27. The steel industry in Central and Eastern Europe is facing delays in the privatisation and restructuring processes which have aggravated social and regional problems. Restructuring is urgently needed to address insufficient market-oriented management, low productivity, low or negative profitability, and so, lack of competitiveness, with important investment needs (an estimated \$ 10 billion between 1994 and 2002 is required to pay for the industrial aspects of restructuring) and above 200.000 job losses, as forecasted, in the next 5-7 years. However, in view of US Steel Industry concern that this money would come from public coffers in the EUROPEAN UNION (see the American Metal Market of April 14,1998), I can assure you that it is not the case.

28. In fact, in its Communication of April 7, 1998, the Commission proposes that the Community contribute to the restructuring of the steel industry in Central and Eastern Europe both directly and by acting as a catalyst to stimulate investment from International Financial Institutions and the private sector in four principal ways:

- Assistance with the definition and funding of accompanying social and regional measures necessary for the success of the restructuring process. This will include assistance in defining development plans for steel regions and the use of Phare's support for the social side of restructuring, covering training programs and the creation of micro-enterprises.
- Improvement of the investment climate. Support for the removal of legal and administrative obstacles to investment and infrastructure development will make an important contribution to the efforts for restructuring of the steel industry in Central and Eastern Europe.
- Boosting competitiveness and promoting access to financial resources. This will take the form of technical assistance in areas, such as market research on the principal steel-consuming industries, secondment of experts to identify measures which could boost the cash flow of steel producers and the formulation of business plans for companies which want and get access to external financial resources.
- Promoting dialogue between Central and Eastern European countries and the European Union. The European Union could organise such a dialogue by setting up, alongside the bilateral ECSC contact groups, a multilateral forum on the steel industry in Central and Eastern Europe. The first meeting of this forum could take place after next summer. This would create bridges between the Commission and the applicant countries. It could be enlarged to include representatives of the Member States, of the industry and international

financial institutions to exchange information and experience on progress with and financing of the restructuring process.

### **Requirements to be met by the applicant countries**

29. For the restructuring to be a success and European Union assistance to be forthcoming, the countries of Central and Eastern Europe will need to meet all the following requirements:

- compliance with the Europe Agreements;
- compliance with the priorities specified in the Accession Partnerships, particularly, in the case of undertakings receiving social adjustment assistance, monitoring of the implementation of plans to restore undertakings to viability;
- adoption of a sound and comprehensive steel restructuring programme with a clear timetable for their implementation;
- strict compliance with state aid rules.

### **Partnership and Cooperation Agreements (Russian Federation, Ukraine, etc.)**

30. Industrial co-operation with the Russian Federation in the steel sector takes place within the framework of Art. 21 of the EC-Russian Federation Partnership and Co-operation Agreement (PCA), providing for a Coal and Steel Contact Group between both parties. The inaugural meeting was held in Moscow on 28 January 1997. The second meeting is scheduled for July 1998, again in Moscow. The PCA with Ukraine entered into force on 1 March 1998. The Community's industrial co-operation policy vis-à-vis Russia and Ukraine is characterised by supporting their steel industry in its transformation towards a market-oriented structure. The Community is providing technical support to both countries on the restructuring of their steel industries. In Russia, co-operation actions so far have concentrated on the development of domestic Russian steel markets and on improving Russian steel companies' management and technical efficiency.

### **Concluding remarks**

31. So to conclude, Mr. Chairman, it seems clear to us that the restructuring of the steel industry in the Central and Eastern Europe will be designed and implemented by the undertakings themselves in co-operation with their national governments and with assistance from private sector strategic investors. The aim of the restructuring programmes should be to establish in Central and Eastern Europe a viable steel industry able to: survive in the world steel market without unfair subsidisation; deliver the products required by the domestic market in the region without being so dependent on export markets, compete on equal terms with Western European producers by the time these countries join an enlarged European Community.

32. Thank you for your attention.