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OECD Special Meeting at High-Level on Steel Issues

STEEL AND SUSTAINABLE DEVELOPMENT:
BALANCING FINANCIAL, ENVIRONMENTAL AND SOCIAL CONCERNS

Presentation by Mr. Enrico Gibellieri, TUAC/IMF

The Outlook for Steel Conference, organised by the OECD in co-operation with the IISI on 12-13 January 2005 at the OECD Headquarters in Paris.

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STEEL AND SUSTAINABLE DEVELOPMENT: BALANCING FINANCIAL, ENVIRONMENTAL AND SOCIAL CONCERNS.

Mr. Enrico Gibellieri. TUAC/IMF

Background

1. The IMF notes with concern the profound and rapid structural changes occurring in the International steel sector in an industrial policy environment without tried and tested tools to manage industrial change. The IMF considers that the immediate and medium-term perspectives of the steel industry are being shaped by:

- The growing importance of Chinese steel producers and consumer
- The probable acceleration of companies mergers and concentration
- The impact of the unilateral application of the Kyoto Protocol by only certain areas of the world
- The failure so far of governments to conclude an OECD agreement to regulate global overcapacity and market distorting subsidies.

2. Steel is a notoriously cyclical industry where employment is constantly under threat from fluctuations in demand and rapid productivity improvements. At present, the international context lacks the mechanisms to coordinate and make consistent policies bearing on sustainable development in the steel industry. For example, the burden of the emissions trading scheme applied only in certain areas of the world is likely to fall predominantly hard on the steel sector and put it at a competitive disadvantage in the global industry. This goes against the creation of a coherent macroeconomic framework conducive to enterprise and competitiveness with the specific needs of individual sectors.

3. Trade union members active in the steel sector have come together through the IMF to assess the nature of the present challenges, to evaluate likely developments in the short term and to formulate policies in an international setting to promote stability and sustainable growth. This is the first occasion since a long time for trade union representatives from all the main regions of the world with steel industries to share their experiences and views on the radical new trends and opportunities for shaping an international framework for stable development. Identifying the way forward must involve all of the stakeholders and the great majority are present in this conference. In particular, the IMF takes satisfaction in the participation of the main international institutions, national governments, and other stakeholders, making it possible for the representatives here to give a lead to developing the social dialogue in the steel sector at international level.

4. The combination of massive upward movements in demand and prices of most steel products is unprecedented and was not anticipated although chronic instability is a feature of steel. Raw materials have followed the same massive movements for the prices of iron ore, scrap, and coke. The fluctuations in raw material prices are likely to be followed by those in the prices of steel products. The rapid increase in steel and freight prices themselves has caused investment programmes in manufacturing and construction to be reviewed and in some cases postponed and this will result in a fall in demand and in prices, which will strengthen cyclical forces.

5. The increase in demand became apparent in the second quarter of 2003, continued in 2004, and had its origins in a massive upsurge in demand for steel for construction and manufacturing industry in China. That demand has moderated but is still powerful and can be expected to continue for at least the next four years by which time Chinese preparations for holding the Olympic Games will be complete. At present consumption of steel in China exceeds production of crude steel but that position is likely to be reversed quite soon. Many steel needs will only be met by imports into China for several years to come. The IMF thinks that India too will become a heavy consumer of steel, beginning as a net importer.

6. The IMF fears that governments in the OECD negotiations about subsidies and overcapacity will fail to reach agreement and thus further contribute to instability in the global industry with further distortion of the operation of market forces. The new global demand for steel may have reduced the urgency of the need to find an international agreement in the eyes of some governments. This would be a short sighted and harmful conclusion to reach. In the view of the IMF the present shortage of steel has given all steel producers and governments a unique opportunity to resolve the chronic problem of surplus production of steel. Such an opportunity is unlikely to recur and the IMF urges governments to take it now and put in place an agreement, which can be refined over time. The IMF in favour of maintaining state aids which allows steel companies to tackle in a humane and socially acceptable way the problems of restructuring, redundancy and retraining in times of crisis, and to finance research and environmental activities.

7. The IMF sees great advantages for the steel industry in the enlargement of the EU from May 1 last year. Enlargement will substantially increase steel consumption in the new member states with the growth of steel consuming sectors (automotive, white goods, infrastructure and building). Producers in the new member states will satisfy much of the greater part of this new demand. But it will also give rise to demand for qualities of steel that in some cases at least will not be available from local producers in Central European countries and will open market opportunities for other producers. The IMF recognises the hardship that restructuring is bringing to steel workers and their communities and calls on the European policy-makers to ensure that adequate resources and mechanisms are available to avoid as much suffering as possible.

Issues

To what extent are steel firms worldwide pursuing initiatives in support of sustainable development? What can governments and industries do to broaden and deepen such initiatives?

8. The IMF has commented on the uncertainties associated with the introduction of a highly experimental emissions trading regime which could cause distortions and disruption to international steel companies and fail in its aim of bringing about continuous reduction in greenhouse gas emissions. The IMF suggests that the introduction of the regime should be delayed until all the questions about methodology, efficacy and fairness are resolved in all the involved steel producing regions of the world.

9. The IMF emphasises the need to promote social cohesion as an essential component of the aim to increase the competitiveness of the international steel industry and to dampen down fluctuations in steel markets. A crucial element in achieving this is the provision of adequate training and retraining programmes in cooperation with the public authorities, employers and the appropriate trade union organisations to ensure that skilled people can be recruited to the industry and that they can find fulfilling careers in the industry.

10. The IMF also recalls the need for a framework providing an effective means of running a sectoral industrial policy in the steel sector, combining the achievement of outstanding productivity improvement with the effective resolution of social problems accompanying great and rapid economic change. At the

same time, the IMF calls all the interested parties to join forces and to launch a high-level industrial policy initiative bringing together all stakeholders in a joint endeavour to support and strengthen the global competitiveness of the international steel sector.

11. In the view of the IMF this initiative should be targeted to the extensive involvement of the social partners in dialogue and decision-making, enhancing the role of social dialogue in augmenting competitiveness and promoting company development. The IMF is ready to contribute to the success of the initiative to establish the future sectoral social dialogue framework for the International Steel Industry. Three main features of this framework would be:

- the free practice of fundamental independent democratic trade union and other workers' rights in all the main steel producing regions, countries and companies in order to improve working conditions and reduce unfair trade and unacceptable incentives for the relocation of enterprises.
- the management of restructuring and modernisation processes in a social acceptable manner through the full involvement in the decision process of free and democratic trade unions organisations.
- A determined and intensive effort to tackle health and safety problems in steelworks to minimise lost-time accidents and eliminate fatalities, the high rate of which is a continuing tragic feature of the steel industry.

How can environmental objectives, particularly those related to reducing greenhouse gases, be achieved without undermining the viability of energy-intensive industries like steel? How can distortions in competition be avoided?

12. The IMF sees proactive industrial policy as a key factor to ensuring a competitive and sustainable international steel industry. The notion of sustainability encompasses economic, social and environmental aspects. Only a balanced recognition of these aspects can secure a high level of employment, high social standards and the well-being of citizens and the planet. These considerations have to be borne in mind also when dealing with climate change.

13. The IMF strongly welcome the ongoing initiatives established by the steel industries at international and regional level to reduce the environmental impact of steel products and technologies, particularly those related to the reduction of greenhouse gases. The IISI CO_2 Breakthrough Programme and the European ongoing research project ULCOS and other research and innovation activities foreseen in the context of the European Steel Technology Platform are two very good examples of these common efforts. As already practised in the European Steel Technology Platform, trade unions should to be involved as key stakeholders in these initiatives.

14. The IMF has welcomed the adoption in 1997 of the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as well as the principle of a joint international commitment to reduce greenhouse gas emissions by at least five per cent compared to 1990 levels in the period 2008 to 2012. The European Union has committed itself to a reduction of 8% on average. The Kyoto Protocol also encourages innovation in developing new energy-efficient and non-polluting technologies.

15. The accession to the Protocol of Russia is a welcome development but the basis of the Kyoto Protocol has been undermined because major producers of greenhouse gases, notably the United States, have not ratified the Protocol and the whole developing world, including China, is outside the scope of the Protocol. It is therefore obvious that the targets set and approved in Kyoto will not be achieved.

16. The European Union, in contrast, in 2003 adopted a Directive to establish a scheme for greenhouse gas emission permit trading. The purpose was to introduce market mechanisms in the efforts to reduce emissions so that the EU would make a leading contribution to achieving an eight per cent emission reduction by 2008 to 2012 compared to 1990 levels and begin to reverse the processes causing global warming which threatens harmful and unpredictable changes affecting all countries. Initially, in its first phase, the Directive is aimed at containing carbon dioxide (CO_2) emissions. Sectors such as transport, agriculture and the chemical industries are excluded from the application of the Directive.

17. While the IMF broadly welcomes emissions trading as a flexible tool for achieving crucial environmental goals, it notes with deep concern the problems associated with it. The commitments made in the Kyoto Protocol place a heavy burden on electricity generators and energy intensive industries such as steel, metal processing, pulp and paper, cement, and glass. Trade in most of these industry sectors is globally significant. Enterprises based in regions where the Kyoto protocol has been adopted have to compete in global markets with companies which are not bound by the same rules and do not have to bear the additional costs which acceptance of the Protocol implies.

18. Energy intensive industries have already taken considerable voluntary measures by optimising the energy efficiency of processes and recovering waste emissions. Over the past 35 years, the most advanced steel industries have invested massively in new technologies and reduced both its energy consumption and CO_2 emissions by about fifty per cent per tonne of rolled steel. In certain industrial processes the use of carbon is necessary, and CO_2 will be produced. Further progress in improving energy efficiency depends on long-term investments in research and technological progress. It is important that this investment should be increased because steel has a key role potentially in securing sustainable development because of its infinitely recyclable nature.

19. According to some estimates, the implementation of Kyoto protocol, as foreseen by the European directive as an example, could cause electricity prices to rise by 30-40% on the average in Europe, which is already suffering from a higher price level than some its main competitors. For instance energy prices for industry in the USA are already about 30-40% lowers than in Europe.

Given environmental concerns, what is the future for basic steelmaking in major producing areas? To what extent will steelmakers in the OECD area seek to increase their sourcing of semi-finished steel from other areas?

20. The IMF strongly feels that the new emissions trading systems will weaken the competitive position of those steel industries in countries which have adopted the Kyoto Protocol, if its application remains confimed to only some of the main OECD countries. It will be harmful to manufacturing in them and will give rise to de-industrialisation, and may lead to tens of thousands of job losses. This could well be the consequence if there is a failure to engage all the principal steel-producing countries in making similar environmental commitments, preferably within the framework of the Kyoto Protocol.

21. The large-scale increases in prices of raw materials and freight rates for iron ore and coking coals experienced in the last year should encourage orientation of investments policies of the main steel producing companies toward regions and countries where the main raw materials in steel are located.

22. Initially, this trend should probably affect primary stages of the integrated steel production cycle, including continuous casting facilities, and production of semi finished products (slabs, billets). Finishing facilities will probably remain for some time in the proximity of the main steel consuming markets. This trend should result in the acquisition of existing capacity because the construction of new plants to produce crude steel in integrated steel works is difficult to justify economically. The relative share of steel tonnage production in the OECD countries will probably fall progressively while the share of production of the higher qualities of finished steel products will remain roughly the same in these countries, at least for the next decade.

OECD Special Meeting at High-Level on Steel Issues

THE OUTLOOK FOR STEEL

Conference organised by the OECD, in co-operation with the IISI

STEEL AND SUSTAINABLE DEVELOPMENT:

BALANCING FINANCIAL, ENVIRONMENTAL AND SOCIAL CONCERNS

The International Metalworkers' Federation – IMF/TUAC

Paris, 12-13 January 2005

The International Metalworkers' Federation (IMF) - Background

The IMF notes with deep concern the profound and rapid structural changes affecting the international steel sector in an industrial policy environment which lacks tried and tested tools to manage change. In the view of the IMF the short and medium-term perspectives of the steel industry are being shaped by:

· the growing importance of Chinese and other Asian steel producers and consumers

· the impact of the uneven application of the Kyoto Protocol by some of the OECD countries and none of the countries which are rapidly industrialising

· the failure so far of governments to conclude an OECD agreement to tackle global overcapacity and eliminate market distorting subsidies.

The International Metalworkers' Federation (IMF) - 1

The IMF is ready to contribute to developing a framework for sectoral social dialogue in the international steel industry. Three main features of this framework would be:

•the free practice of trade union and other fundamental human rights in employment in all the main steel-producing regions, countries, and companies

•the management of restructuring and modernisation processes in socially-acceptable ways through involving fully free and democratic trade unions organisations in making all key decisions.

•determined and intensive efforts to tackle health and safety hazards in steelworks with the aim of reducing significantly all accidents and eliminating fatalities in an industry where the death toll is still tragically and unacceptably high.

The International Metalworkers' Federation (IMF) - 2

The notion of sustainability encompasses economic, social and environmental aspects. Only a balanced appreciation of these aspects can secure high levels of employment, high social standards, and the well-being of citizens and the planet as a whole.

The IMF warmly welcomes the ongoing initiatives developed at international and regional levels to reduce the environmental impact of steel products and production technologies, particularly those related to the reduction of greenhouse gases. (IISI CO_2 Breakthrough Programme and ULCOS - ESTP)

While the IMF welcomes emissions trading as a flexible tool for achieving environmental goals set in the Kyoto protocol, it notes with deep concern the problems of competition and trade associated with it.

The International Metalworkers' Federation (IMF) - 3

The IMF is strongly of the view that the new EU emissions trading system will weaken the competitive position of steel industries operating under the Kyoto Protocol requirements in the global market, add to the pressures for de-industrialisation in some OECD countries, and could lead to tens of thousands of job losses.

Rapidly rising prices of raw materials and freight rates should result in the increased concentration of primary steel-making operations in countries where ore, coal and other raw materials are located.

This trend should affect the production of semi finished products (slabs, billets), and it is likely that finishing facilities will remain in the proximity of the main steel consuming markets for a decade or so.