Tuesday, 19 May 2020

Mr Phil Hogan
Commissioner for Trade
European Commission
Rue de la Loi 200
1049 Bruxelles

Dear Commissioner, Dear Mr Hogan,

The European steel industry and its value chains were already under huge pressure, even before COVID-19 pandemic struck. The economic challenge facing the sector is now unprecedented.

- Prior to the coronavirus outbreak, steel consumption fell by -5.3% year-on-year in full-year 2019, accelerating to -10.8% in the last quarter of 2019. Meanwhile, the EU steel safeguards' quota was enlarged by +8%.
- Since the outbreak of the pandemic, steel demand has plummeted, falling by more than 50%, with demand from certain steel-using sectors deteriorating even more deeply than that.
- Many steel companies have, or are about to, severely cut production, with cuts of close to 40% of normal quarterly production (Q2) already implemented or imminent. In the South of Europe, the reduction in production is still significantly higher. More cuts throughout the EU are likely given the falling orders and projections for falling demand. New orders are extremely limited.
- Large-scale idling of facilities continues.
- Over 40% of the EU steel labour force is affected by temporary lay-offs and reduced working hours.

We fully support the Commission's efforts to help Member States to provide liquidity to companies as well as its preparation of an EU Recovery Plan that will drive the European Green Deal and the EU's digitisation objectives. However, the positive outcomes of the Recovery Plan will only materialise in the mid- to long-term, over a period of a few years.

The European steel industry has already reduced steel capacity by more than 20 million tonnes over the past ten years. In other countries, export-oriented capacities have been built-up and supported, such as those in China, Turkey, Iran, Russia, Ukraine, South Korea, Egypt, and Indonesia. At the same time, these and other countries refuse to restructure their domestic capacity despite intense discussions at the Global Forum on Steel Excess Capacity.

The gravity of this crisis is such that EU policies are being hastily re-orientated or accelerated in ways that would be inconceivable in normal times. This has included introducing greater flexibility and urgency into policies on state aid and foreign direct investment.

Likewise, trade policy needs to be allowed to shift into crisis mode when European strategic industrial interests are existentially threatened.

We appreciate the technical proposals developed by DG Trade services related to the management of the safeguard quotas. However, the global nature of the crisis is aggravating excess steel capacities worldwide, and so the risk of deflection of exports to the EU has only increased, even as the U.S. Section 232 measures remain in force. As such, for the safeguard action to remain adequate, fundamental adjustments are urgently necessary:

1. Critically, the quotas need to be reduced <u>considerably</u>. This is to reflect – not to 'compensate' or 'substitute' for – the new demand situation and the actual market situation. A review of the situation could take place at end of the year. As it is, by maintaining pre-crisis quota levels – even if these are split up per quarter – the existing size of the safeguard quota will permit large, disruptive import flows to devastate the weakened European steel industry. In the current, critical situation, further quota liberalisation would be absurd.

2. In addition, quota management should be further tightened:

   - Although the introduction of a quarterly system could, theoretically, help flatten import patterns, the transfer of unused quotas to subsequent quarters should not be allowed because saving such quantities would facilitate sudden import increases later.
   - The proposal considers restricting the access of individual countries to the residual quotas of the last quarter. However, this will have little effect, as the country-specific quotas are already far too high. Therefore, access to the residual quotas for countries with their own quotas should not be allowed.
   - The proposal has a safeguarding effect for one product (hot rolled sheets and strip). Nevertheless, this effect is undermined by allowing some access to the residual quota in the last quarter.
   - Finally, there is a need to review countries that have increased their imports under the residual quotas above 5% import share to assign them a country-specific quota based on the reference period 2015 – 2017.

The European steel industry asks that the Commission develop a crisis-oriented review proposal, effectively safeguarding the steel industry, considering its place as a critical component in the EU manufacturing value chain. We are communicating our position and requests to the Member States.

Yours sincerely,

**Geert Van Poelvoorde**
CEO ArcelorMittal Europe – Flat Products

**Olavi Huhtala**
CEO SSAB Europe

**Henrik Adam**
CEO Tata Steel Europe Ltd

**Heikki Malinen**
President & CEO Outokumpu Oy

**Mario Caldonazzo**
CEO Arvedi & Vice-President Federacciai

Lorenzo Riva

**Lorenzo Riva**
CEO Riva Stahl GmbH – RIVA Group

**Heinz Jörg Fuhrmann**
CEO Salzgitter AG

**Francesc Rubiralta Rubio**
Chairman & CEO CELSA Group

**Klaus Keysberg**
Chairman of the Executive Board of thyssenkrupp Steel Europe AG

**Hubert Zajicek**
CEO voestalpine Steel Division