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Characteristics of European Steelmaking in the Context of Indirect Emissions Costs

Prepared for Eurofer – Executive Summary

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Executive Summary

- In the context of the recent consultation by DG Competition related to compensation for increased electricity costs due to carbon emissions pricing, NERA Economic Consulting has been asked by Eurofer to analyse certain economic characteristics of the European steel sector including the competitive position of European producers.
- The gap between global steel production and demand was 650 million tonnes in 2017, which is almost three times the European production capacity of around 220 million tonnes.
- The EU steel sector has reduced both capacity and production over the last decade. The EU share in total global production decreased from almost 15% in 2008 to around 9% in 2018.
- Demand for steel in the EU has been increasing in the last years. Yet, as a result of the trade trends described below, almost all of this increase has benefited extra-EU producers.
- According to European Commission data used for the post-2020 carbon leakage list assessment, the trade intensity of the iron and steel sector has exceeded 25% in recent years.
- As a reaction to unfair trade practices abroad, the EU has implemented numerous measures to mitigate the impact on EU steel producers.
- Despite the measures implemented by the EU in reaction to unfair trade practices, imports have been steadily increasing in volume since 2012 as well as in value in most years.
- As a result of increasing imports and decreasing exports, the trade balance has worsened significantly. The EU became a net importer in volume terms in 2013 and in value terms in 2015.
- Output prices declined by 25%-30% between 2008 and 2016. Material and electricity costs have followed the sector's declining turnover. Yet, the decline in turnover has outpaced the decline in costs, resulting in lower profitability.
- In recent years, the steel sector has ranked among the lowest in all manufacturing sectors for the ratio between gross operating surplus and turnover.
- The sector's EBIT margin estimated with Eurostat figures remained between 1% and 2% in the reference period 2014-2016 and was negative in 4 out of the 6 years preceding 2014.
- Eurostat data shows 2014-2016 investments in the steel sector at their lowest levels in the 2008–2016 period. Furthermore, the ratio between investment and turnover has also been declining, indicating that the sector is investing proportionately less of its declining revenues.

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