

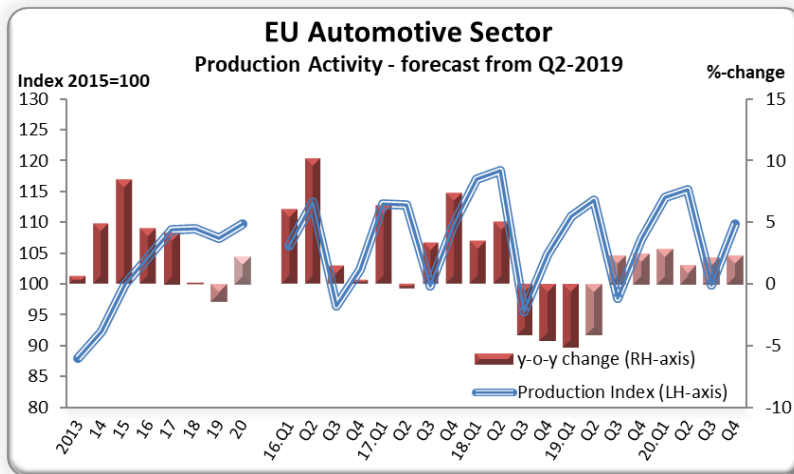
EU STEEL MARKET SITUATION AND OUTLOOK

CHALLENGES

87th Session of the OECD Steel Committee
Paris, 26-27 September 2019

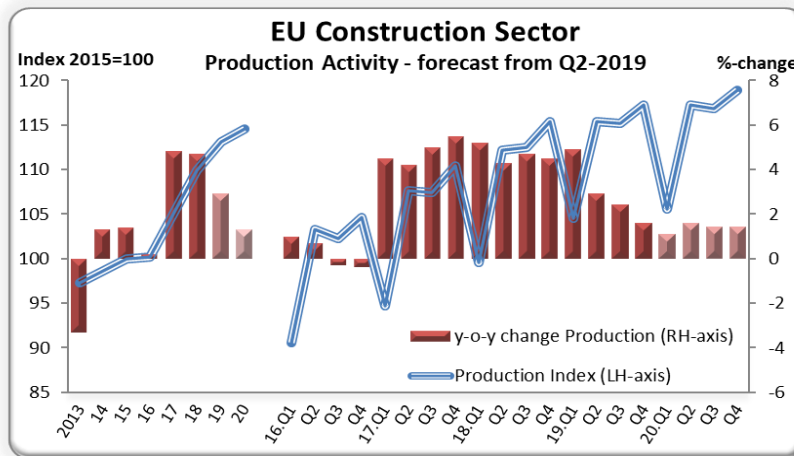
STEEL USING SECTORS

ONGOING SLUMP IN EU'S MANUFACTURING SECTOR



AUTOMOTIVE SECTOR

- After strong performance in 2016 – 1H2018, weak domestic and export demand strongly hitting vehicles output since 2H2018 (-5% Q1 2019)
- Chances of EU car sales growing in 2019 are remote
- **Output: -1.4% (2019) and +2.2% (2020)**



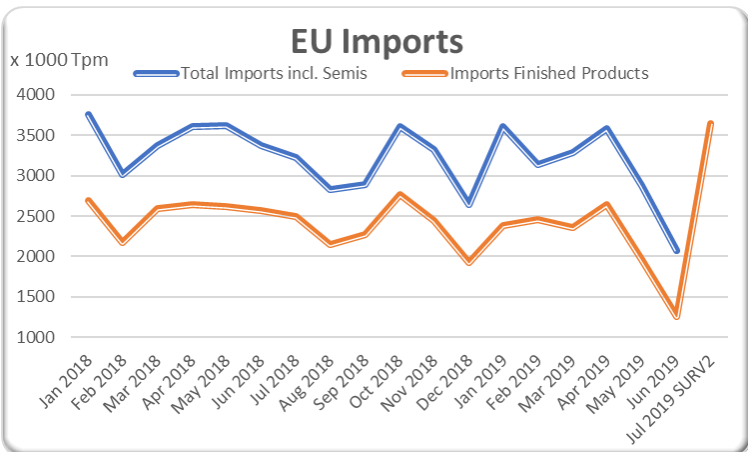
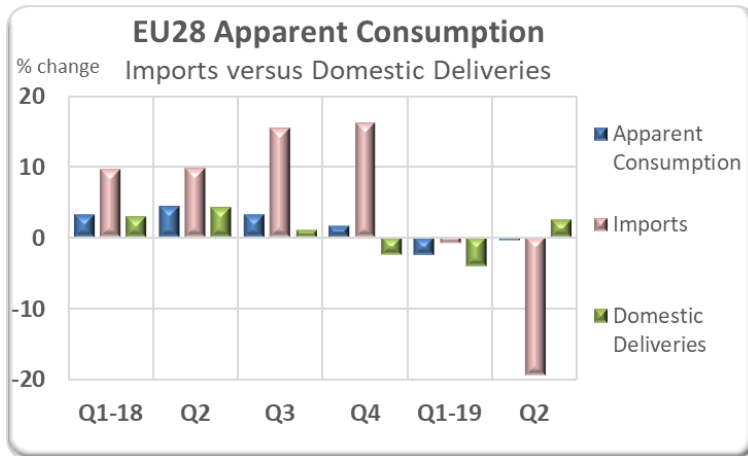
CONSTRUCTION SECTOR

- Construction activity continues growing but at a lower level from the strong activity since 2017 (+4.8% 2018)
- Construction outperforming other steel-using sectors
- **Output: +2.9% (2019) and +1.3% (2020)**

Source: EUROFER

EU STEEL MARKET

NEGATIVE TREND STEEL CONSUMPTION IN 2019



First half 2019:

- Apparent steel consumption fell by -2.5% y-o-y in Q1 '19 reflecting negative trend real steel use and lower stockbuilding
- Similar tendency Q2 '19
- Overall EU finished steel imports stabilised in Q1 2019 (-1%) and decreased in Q2 2019 19%
- EU import surveillance data signal very high imports in July (opening of new safeguard quota year)

Outlook remainder 2019 and 2020:

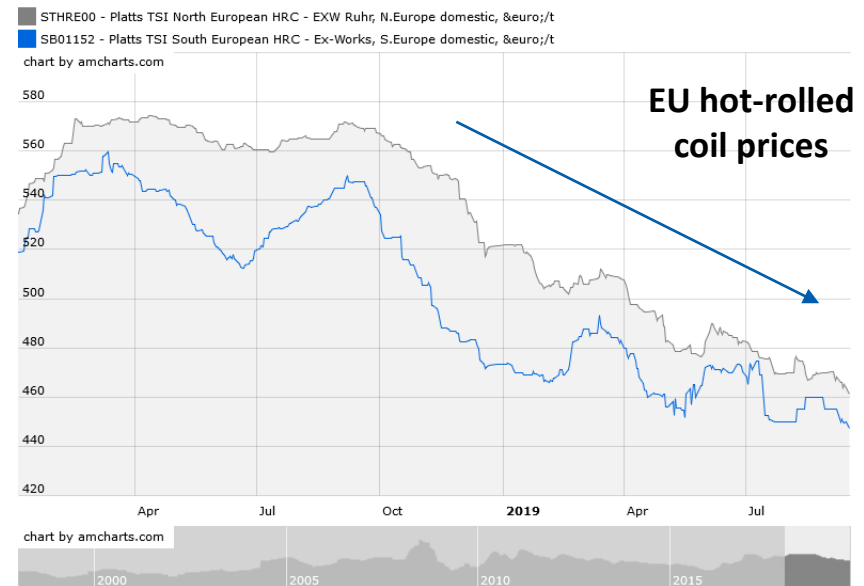
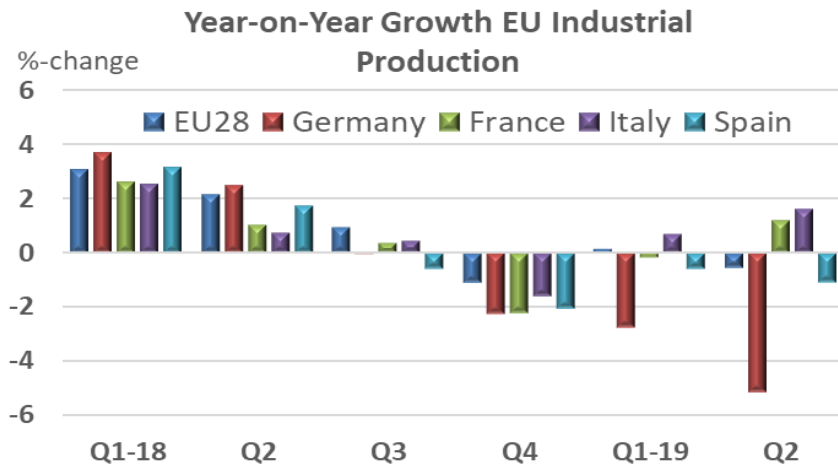
- Apparent consumption forecast to fall by -0.6% (2019) due to poor steel market fundamentals
- Mild increase in final steel + stock cycle may lead to apparent consumption growing by $+1.4\%$ (2020)
- Persistent risk of import distortions destabilising supply demand balance

Source: EUROFER, COMEXT

EU STEEL MARKET

EU STEEL DEMAND DEPRESSED

- Following healthy EU steel demand growth in 2017 – 1 half 2018 (3 to 4%), demand from **manufacturing industries** turned negative in 4 quarter 2018
- EU steel prices in a downward trend over the last 12 months (-20% hot-rolled)



EU STEEL MARKET

EU STEEL PRODUCTION ADJUSTING TO DEMAND AND IMPORT PRESSURE

EU STEEL PRODUCERS INDIVIDUALLY ADJUSTING PRODUCTION IN RESPONSE TO DEPRESSED STEEL DEMAND SITUATION NOTABLY FLAT PRODUCTS

ANNOUNCED PRODUCTION CUTS TOTALLING AT LEAST 5 MILLION TONNES PER YEAR

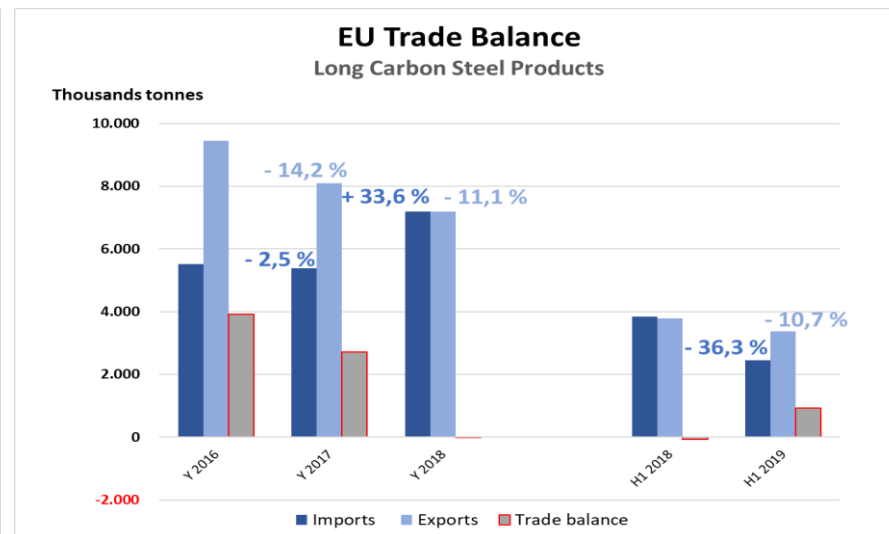
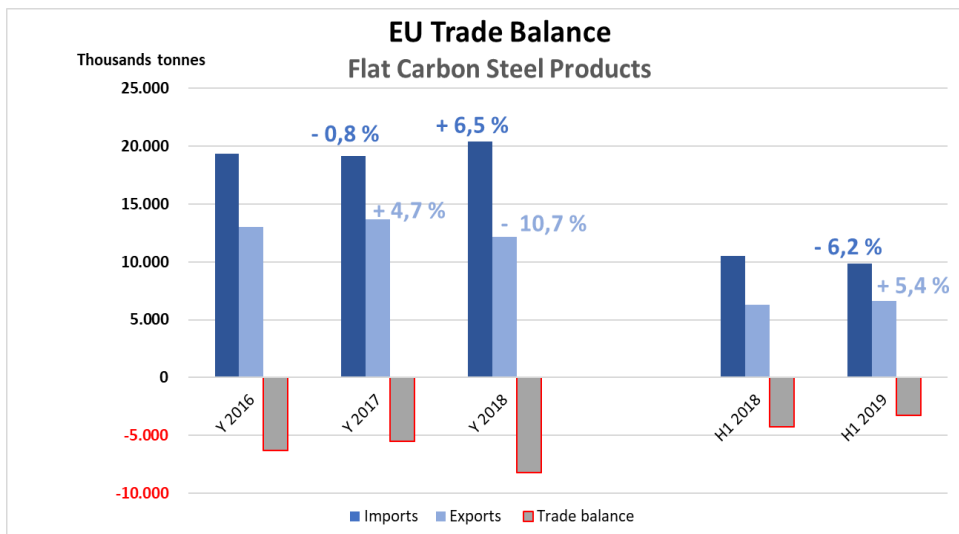


Source: Company and press announcements

EU STEEL TRADE

EU FINISHED STEEL IMPORT SURGE IN 2018 – IMPORT TREND REVERSING IN 2019

- EU finished steel imports surged in 2018 (+12%); 2019 YTD import (-6%)
- Flat carbon negative trade balance peaked in 2018 (-8.2 million tonnes)
- Long carbon positive trade balance erased by massive imports in 2018 (+34%)



Source: COMEXT

EU STEEL SAFEGUARD

EU steel safeguard: need for stabilisation of imports



- Global overcapacity, protectionist measures adopted by third countries



- Further increasing imports threaten to disrupt (again) the EU market



- Anticipating trade diversion from U.S. Section 232 measures at the same time ensuring the traditional trade flows maintained (tariff-rate quota)



- Concern of speculative quota use by certain exporters causing market-destabilising stockbuilding

**THE SAFEGUARD REVIEW IMPROVES THE MANAGEMENT OF THE QUOTA
LEVEL OF THE QUOTA NEEDS FURTHER ADJUSTMENT TO THE DEPRESSED STEEL DEMAND**

CONCLUSIONS AND MESSAGES

EU Steel Market and Trade

- **EU steel demand significantly weakened** (negative steel demand from manufacturing)
- **EU production adjusting to the depressed demand situation**
- **Need for further stabilisation of imports** - EU safeguard tariff-rate quota better managed but need for further quota level adjustment reflecting decline in demand

Challenges and Messages

- **Addressing global excess capacity effectively** - Continuation of the Global Forum on Steel Excess Capacity implementing fully the original mandate - Need for stricter disciplines on subsidies supporting capacities and other market-distorting government measures (WTO reform)
- **Measures to achieve a level playing field in relation to EU environmental regulation** - Need for measures such as carbon border adjustment/taxation integrating international trade in the EU carbon pricing regime applied to energy-intensive industries like steel