Fédération Française de l'Acier

Steel in France in 2010

Editorial

Facts have confirmed our limited optimism expressed in our 2009 Federation's activity report editorial. The year 2010 was a year of convalescence, in particular for the French steel industry, on its way to regain the level of the prosperous years known before the economic crisis.

Almost half of the way that will probably be longer than expected, has actually been done in 2010 with a progression of 20% of the French crude steel production (to be compared to +23.9% at the European level). This production has reached the level of 15.4 million tonnes, i.e. still -22.3% below of the average annual production for the period 2003-2007.

The real steel consumption has also progressed in 2010, with about +6.8% in France to be compared to an average of +4% in Europe but with large discrepancies in the performances between the northern countries and the southern ones.

It should be noted that these significant progressions are registered within a landscape of European economic growth relatively limited to +1.8%, as the French economic growth (+1.5%) was slightly lower than the European average.

If the scope is enlarged to the world steel industry, the year 2010 was marked by much more important facts, i.e.:

- a record of crude steel production with 1 412 million tonnes, in progression of around 15% in comparison with 2009;

- records of national crude steel production for China with 627 million tonnes, i.e. 44.4% of the world production, and for India at 66.8 million tonnes, i.e. 4.7% of the world production;

- ArcelorMittal still hold, with an annual production of 90.5 million tonnes, the leading position in the Top 10 of the world crude steel producers). The six Chinese producers which now rank in that « top 10 » represented 6.4% of the world production, followed by the two Japanese Nippon Steel Corporation and JFE and the Korean Posco completing this « top 10 » ;

- the rocketing of prices for the raw materials with increases of around 90%, 75%, 50% and 30% on year, respectively for iron ores, metallurgical coke, scraps or nickel.

What should be kept in mind for our industry in 2010?

At first, the flexibility of our industry should be underlined, as demonstrated by its ability to adapt to the real needs of the market and to restart or idle its production tools, in particular blast furnaces, in a relatively short time. Its ability to face very strong variations of the prices of the raw materials, essential elements of the steel production cost, should also be underlined. Last but not least, the stabilization of the employment level in our sector should be underlined after a very difficult year in this respect, in 2009.

After the finalization of the reorganization of our federation, properly carried out during the year 2009, the main topics for our profession, that have been managed in 2010, concerned general aspects such as the continuation of the "Etats Généraux de l'Industrie", environmental subjects always so engaging (climate change, REACH, waste) or the file of the railway freight. During this year 2010, the standardization Bureau related to FFA (BN Acier) has been granted with a new temporary approval by the French public authorities in application of the new ordinance on standardization.

During the year 2011, the steel industry should remain on a positive slope with new progressions of the apparent and real demands for steel, at the European level, where the estimates are respectively of +5% and +6%, as well as at the French level, with estimates a little bit lower, at a level of around +3 %. These estimates are confirmed by those of the main sectors using steels: automotive industry, mechanical engineering industries and construction (buildings and public works). We shall hope that the natural catastrophes and the geopolitical events, occurred in the first quarter of the year, will not alter the optimism showed at the beginning of this year 2011, confirmed by the results of the first quarter.

Bernard Creton
General Manager

The market

The year 2010 was the year of the consolidation of the world economic recovery begun in the second half of the year 2009. However, this year will also have been characterized by strong turbulences in Europe with the crisis of the national debt which has affected several countries and bring many concerns in the European zone.

World growth exceeded its long period average, reaching a rhythm of 4.7% but with strong disparities according to regions of the world. However, if the world economy took up with the expansion, the intensity of the resumption diverged. In a first group, we find the emerging countries from the Asian zone but also Brazil which quickly exceeded their pre-crisis levels, contrary to the United States and Europe which registered modest growths and did not come back to their pre-crisis levels of production.

GDP Change in %

	2009	2010
World	**- 0,8**	**4,8**
European Union 27	**- 4,2**	**1,8**
North America	**- 2,9**	**3,1**
South America	**- 0,4**	**6,5**
Asia	**1,4**	**7,3**

Source : COE-Rexecode

In Europe, the growth was moderated with important distortions of performance between members countries because of a degraded situation in public finances for several countries. Among the big countries, Spain was very affected by the tensions on the financing of the national debt and its growth was slightly negative, as a consequence of the crisis of its real estate sector. In contrast, Germany performance has been strong with a growth of 3.5% that compensates however its big recession in 2009, consequence of its important exposure in the international market. France economic growth was close to its trend evolution and to the Eurozone average, recording a rhythm of 1.5% in 2010. The good behaviour of the household consumption was one of main factors of support whereas the export performances were modest.

Activity of the steel using sectors in EU increased by close to 6% after a collapse of about 20% in 2009, France performance being slightly below the European average.

The registrations of passenger cars and light commercial vehicles in EU fell by 4%, although they are supported by the still current scrappage incentives one part of the year in several countries. In France, they were stable, supported by a bonus maintained during the whole year. The European production of the whole automotive sector strongly plump however, reaching a rhythm of 20% after a collapse, previous year. This surge was stressed by the adjustment of the stocks of vehicles in the whole of the sector.

The recovery of the mechanical engineering and the metal work sectors was more modest and reached about 10%, thanks to good performances in export markets, particularly in Germany, but also a rebound in investments in Europe during the second half of the year. Activity remains nevertheless 20% lower the level of 2007.

Other important steel consuming sector**, the construction sector in Europe**, registered an evolution very differentiated from the previous sectors and fell by 2%, France registering an evolution close to this average. However, the situation was contrasted between EU countries, Spain has still registered a collapse exceeding 12%, activity of Spanish construction was 40% under its 2007 level whereas in European Union activity was only 10% lower its pre-crisis record.

Real consumption of steel consequently registered a rebound of 7% in Europe and in France. Apparent consumption surged by 23% in European Union and by 18 % in France, surge which did not generate any excessive stocks rise of steel which stayed in low levels towards past in the whole chain of consumption late in the year.

The recovery in steel apparent consumption was in general stronger in steel flat products which increased by 23% while long products apparent consumption increased by only 11% in France.

Domestic Market of finished steel products
(in kilotonnes)

Suppliers	**2010**	**Change 2010/2009 in %**
French mill deliveries	5 682	13,5
Imports	8 597	24,7
TOTAL	**14 279**	**20,0**

European Union foreign trade

Steel product imports from the third countries in EU accelerated by 30%, in particular imports of flat products due to the recovery of steel apparent consumption, after a collapse of close to 50% in previous year. Imports from China dramatically increased without joining however their level of the pre-crisis. Russia and Ukraine kept an important share in the whole imports, with a ratio close to 50%.

Exports of steel-making products towards the third countries recorded a growth which erased the decline of 2009.

All in all, the balance of trade remained slightly positive.

	French foreign trade (in kt)									
	Steel products				First processing products				All products	
	Exports		Imports		Exports		Imports		Balance	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Total	**10 656**	**12 650**	**9 618**	**12 158**	**1 222**	**1 465**	**1 792**	**2 241**	**468**	**-284**
European Union countries (27)	8 820	10 653	9 396	11 776	723	887	1 675	1 951	-1 528	-2 187
Third countries of which:	1 836	1 997	222	382	499	578	117	290	1 996	1 903
Other Europe	656	805	98	110	83	134	64	156	577	673
Africa	409	383	51	42	88	107	12	9	434	439
United States	194	324	27	162	78	117	6	7	239	272
Asia	560	470	45	67	243	215	35	118	723	500
Oceania	17	15	1	1	7	5	0	0	23	19

Source : Eurostat.

French imports of steel products and products of the first processing rose by 25%, because of the recovery of the steel consumption.

French exports of steel products and products of the first processing also increased by 19% in correlation with the recovery of the consumption in the European partner countries.

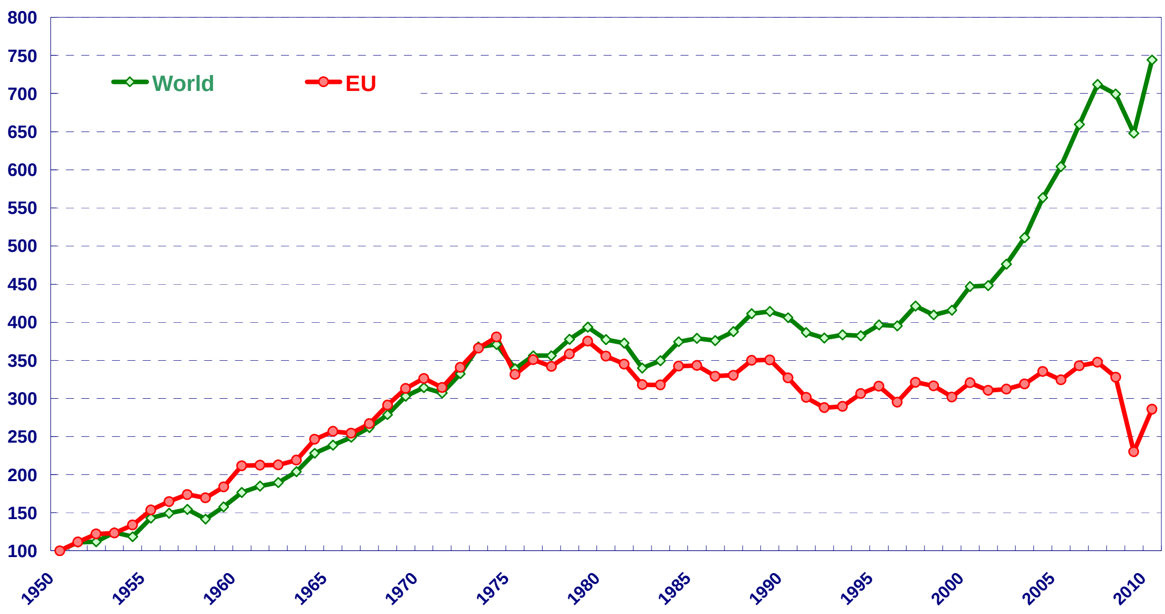
The balance of the external trade of steel products and products of the first processing deteriorated and was negative for products from the first processing.

World steel production

World steel production confirmed its recovery started end of the first half of 2009, and increased by 15% the last year.

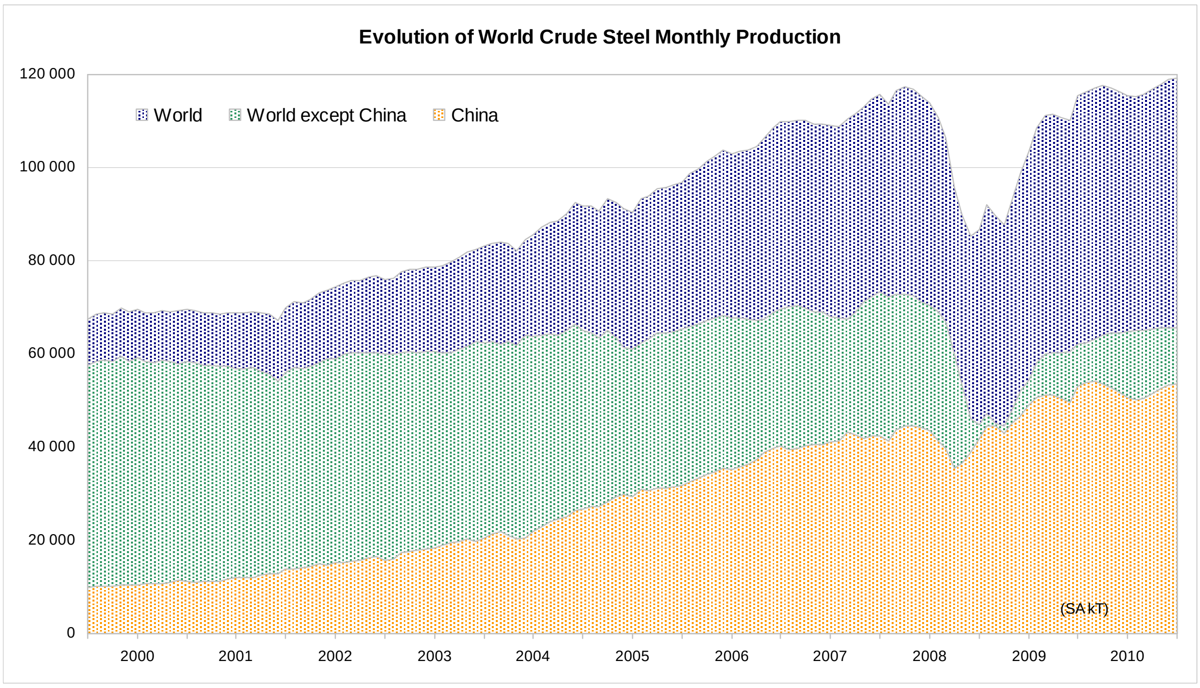
In European Union, the growth reached a rhythm of 24% and 20% in France. However, steel production stands back its 2007 level, of 20% in France and of 18 % for the European Union. The share of the European Union in the world steel production pursues its decline and represented only 12% in 2010.

Crude Steel Production - Index 100 / Year 1950



In North America, the increase was strong with a growth rate of 35%, the level remains 18% lower regarding 2007 result. The growth of the production in South America reached 16% of which 24% in Brazil

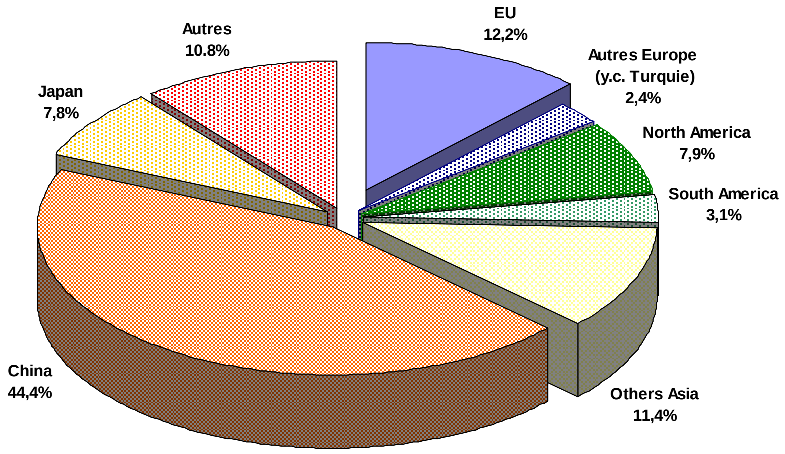
Asia, of which the share in the world steel production reached 64% in 2010, China 44%, continued its increase with a rhythm of 12%.

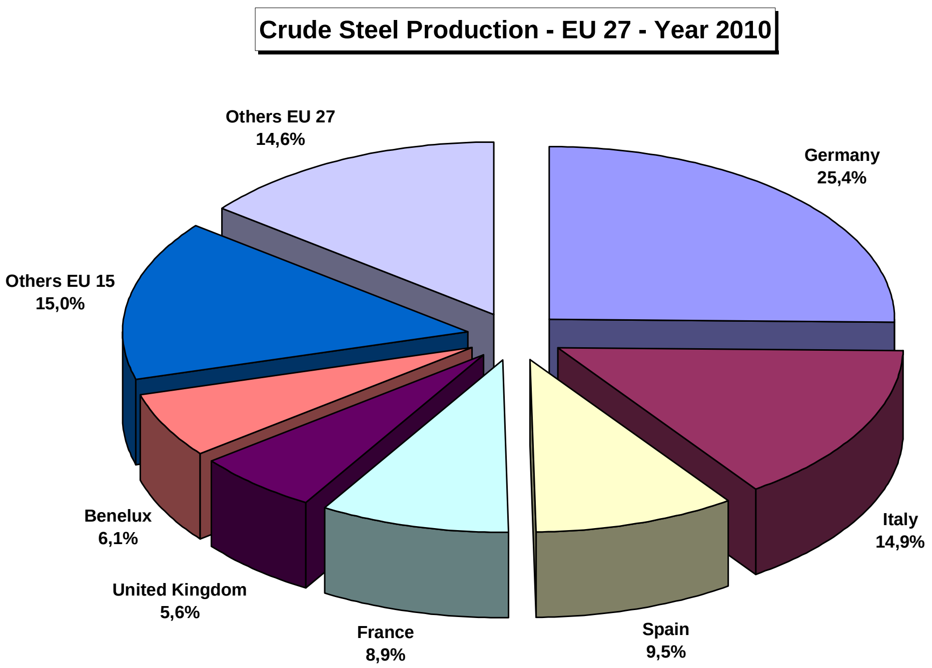


World steel production

		Production (kt)			Change	
		2 008	2 009	2 010	2009/2008	2010/2009
European Union		**198 195**	**139 366**	**172 617**	**- 29,7%**	**23,9%**
Of which :	Germany	45 833	32 670	43 830	- 28,7%	34,2%
	Spain	18 640	14 358	16 343	- 23,0%	13,8%
	France	17 878	12 840	15 414	- 28,2%	20,0%
	Italy	30 590	19 848	25 744	- 35,1%	29,7%
	United Kingdom	13 521	10 079	9 709	- 25,5%	-3,7%
	Poland	9 728	7 128	7 993	- 26,7%	12,1%
Other Western European countries		**29 928**	**29 106**	**33 605**	**- 2,7%**	**15,5%**
Of which :	Turkey	26 806	25 304	29 143	- 5,6%	15,2%
Other Eastern European countries		**114 345**	**97 645**	**108 228**	**- 14,6%**	**10,8%**
Of which :	Russia	68 510	60 011	66 942	- 12,4%	11,5%
North America		**124 494**	**82 578**	**111 406**	**- 33,7%**	**34,9%**
Of which :	United States	91 350	58 196	80 495	- 36,3%	38,3%
South America		**47 354**	**37 775**	**43 765**	**- 20,2%**	**15,9%**
Of which :	Brazil	33 716	26 506	32 820	- 21,4%	23,8%
Asia		**771 013**	**804 862**	**897 913**	**+ 4,4%**	**11,6%**
Of which :	China	500 312	573 567	626 654	+ 14,6%	9,3%
	South Korea	53 625	48 572	58 363	- 9,4%	20,2%
	India	57 791	62 838	66 848	+ 8,7%	6,4%
	Japan	118 739	87 534	109 599	- 26,3%	25,2%
Middle East		**16 646**	**17 656**	**19 590**	**+ 6,1%**	**11,0%**
Africa		**16 997**	**15 170**	**16 621**	**- 10,7%**	**9,6%**
Australia – New Zealand		**8 424**	**6 014**	**8 149**	**- 28,6%**	**35,5%**
WORLD		**1 327 396**	**1 230 172**	**1 411 894**	**- 7,3%**	**14,8%**

World Crude Steel Production - Year 2010





SUPPLIES - ENERGY

IRON ORE

(in kt)

	2009	2010*	Change in % 2010/2009
Imports	10 214	15 989	+ 63.9%

- preliminary figures

- Main sources of imports

Brazil : 51.5%	Canada : 25.6%	Mauritania : 11.7%	Australia : 3.8%

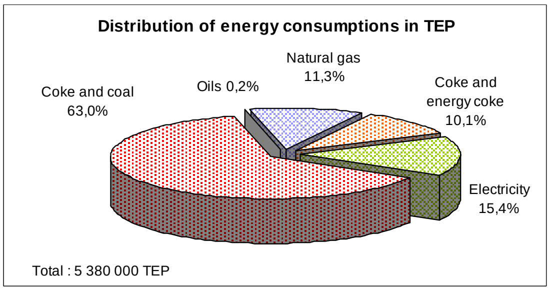
SCRAPS (in kilotonnes)

	2009	2010*	Change in % 2010/2009
Domestic collection	6 221	7 190	15.6%
Imports	1 505	1 404	- 6.7%
Total supplies	7 726	8 594	11.2%
Consumption	7 294	8 103	11.1%

* preliminary figures

ENERGY

Energy consumption 2010 (Except steel-making gas)	
(Change with regard to 2009)	
Coke and coal	+ 25.6%
Oils	- 11.3%
Natural gaz	+ 22.8%
Electricity	+ 17.6%



The evolutions in the energy consumption can be explained essentially by two factors:
- The increase of 20.1 % of the production of steel with regard to 2009, in the bottom of the crisis;
- The increase of the share of oxygen steelplant which produced 63.7 % of the steel in 2010 against 59.8 % in 2009, this evolution being mainly due to the shutdown of Gandrange electric steelshop and to the very low run of ArcelorMittal's blast furnaces in Lorraine in the year 2009.

TRANSPORT

Rail

After the significant fall in traffic in 2009, mainly due to the economic crisis, the rail transport activity has continued to fall, less noticeably than in 2009 but which brings henceforth the share of the SNCF to some 25 billion of t.km compared to 37 billion of t.km in 2000.
At the same time the share of other operators (Euro Cargo Rail and Eurotunnel) only gets larger, going from 13% in 2009 to a bit more than 14% in 2010.
How does one explain this situation? The last performance is mainly linked to the restructuring of the freight organisation of SNCF and its new approach to the single wagon. In fact, the new system proposed by the SNCF, multi-loads, multi clients, modifies drastically the relationship between the rail operator in charge of merging the flow, and the client forced to foresee long in advance the volumes which they will deliver to the SNCF, otherwise they are sanctioned.
Such a (re) organisation, not yet finalised to this day , leads the loader to re-examine his transport policy, either to transfer a share of the tonnage to lorries or where he can to river or sea transport.
It must be noted that to this day, only the SNCF attempts to maintain a part of its single wagon activity while simultaneously looking for a way to make this organisation profitable.
The problem becomes as well a real European issue, because the Italian company Trenitalia has decided to abandon the single wagon system, leading to a modification not only of the Italian plans but also the European ones with deliveries for Italy.
In parallel, the difficult relations between the SNCF and the RFF (Rail Network of France) for the allocation of lines dedicated to freight, does not help but to amplify the additional unrest in the organisation of rail freight on a national scale. The ARAF (Authority for the Regulation of Railway Activities) put in place finally on the 1st December 2010 will be in charge of sorting out this “turbulent zone”.

Road

The question of the 44 tons has been one of the beacon issues in the year that has gone by.
The decision taken by the President of the Republic in April 2010 to authorise the circulation of 44 ton lorries in the agricultural and food industry sectors, has aroused a lot of dissatisfaction among other industries such as steel.
Since the beginning of 2011, a common action among industry has been put in place to alert the public authorities of the necessity of spreading the authorisation of 44 tons to all industries.
The problem however remains because there is a strong disparity in Europe with regards to the circulation of 44 tons or heavier. In fact, if 40 tons is authorised in France as in Spain (44 tons for combined transport), the Benelux, Italy and the United Kingdom have already gone to 44 tons, read 50 tons in the Netherlands and 60 tons in Finland and Sweden.
As far as volume transported is concerned, after a drop of 5.4% in 2009, road transport will have globally increased by 4.9% in 2010.
Does the drop in rail traffic combined with the increase in road traffic not go against the direction of Grenelle?

ENVIRONNEMENT – SUSTAINABLE DEVELOPEMENT

Energy and climate change

2010 was again rich in new developments about energy.
At the national level, the carbon tax project decided by the Grenelle 1 law, was given up finally after long discussions with the Government.
France didn't wish to penalize its industry, so the debate was set at the European level, but this proposition of carbon compensation at European boundaries was not adopted, for lack of approval unanimously necessary in fiscal subject.
From the middle 2010, the FFA widely got involved in a project of internal tax on the final consumption of electricity which allowed the exemption from some industrial activities and particularly in the metallurgical processes. The application decree, released at the end of 2010, widens the possible exemptions.
We succeeded in having the specificity of our businesses recognized, and from January 1st, 2011, the electricity used in melting furnaces, rolling mills, but also for heat treatments was able to benefit from these measures.
Today the other subject is the gas, because gas and electricity are not exempted in a identical way. Public authorities committed themselves to harmonize the taxation of these two energies, so FFA will remain watchful on this file.

At the community level, and for the steel industry, the implementation of the "CO2 allowances directive" stays THE priority subject.
After long and difficult negotiations, the decision of the European Commission on rules for harmonised free allocation of allowance was adopted on the 15th December of 2010 and we are looking forward to an official publication.
However numerous questions remain concerning, among others, at the allocations granted to waste gases, in 2014 the review of sectors deemed as exposed to carbon leakage risk, the status of the small installations, but also the compensations for the electro-intensive sectors.
Year 2011 will be essential because the industrialists must estimate and declare their needs of allowances, before the end of June, so as to continue their activity from 2013 until 2020.
FFA stays listening in its members to help them in this approach.

Concerning the CO2 emissions reduction target of 30 % in 2020, DG Climate persuaded the companies that it understood their arguments about to the loss of competitiveness in a world market.
But, today, the incomprehension is total, because we are in front of a "Roadmap for moving to a low carbon economy in 2050", with objectives to achieve - 80 % to - 90 %! How to justify such a relentlessness to weaken the European industry? The mobilization is general both at the European and national level.

The regulation REACH

All year 2010 long, the registration of substances, to realize by December 1st, was the major reason of works and reflections.
Information exchanges between and with consortia were many and sprinkled with uncertainties, but the adopted final choices, that they were even political, economic, technical, resulted to register 25 000 files related to 3 400 substances.
A first stage is crossed, but the Commission continues to move rapidly and already plans the review of the REACH regulation. FFA and Eurofer remain attentive, because if the announced first objective is to develop a synergy between the different European texts, the European Agency could take advantage of it to widen the field of application.
A point which worries particularly the steel industry concerns substances registered in the candidate list for authorization. The French public authorities wish to play an active role by proposing new substances every year: chromates, salts of cadmium, salts of beryllium, but also salts of nickel, while these last ones have been studied for several years as substitutes in chromates.
We risk being in a difficult relation with the statutory authorities, because companies will necessarily need time, in order to deadlines of adaptation are compatible with the technological and industrial constraints. Shall we manage to make become aware to our administrations which their hard position will risk to lead to a relocation of industrial processes towards less virtuous countries?

The waste

Voluntary policies so European as national, for the material recovery and the waste recycling represent opportunities from which the professionals of the steel will can benefit: Grenelle 1 law fixed an 75 % target of recovery / recycling to achieve before 2012, for the industrial non hazardous waste. And from its side, the waste directive defined a 70 % rate for construction and demolition sectors, in 2020.
On the other hand, Europe continued its works in comitology, about to the definition of the criteria allowing waste to cease to be waste and to become again products.
This subject is very important for steel industry, because scrap metal will be the first to "benefit" from this device.
The more the reflection progresses and the more the complexity appears: How make live two different regulations on our sites, the one relative to the waste and the other one concerning the preparations? What registration under REACH? Who will keep the title of recycler?
On several occasions, FFA informed public authorities of its queries and discussions will continue in 2011.

A special item rises strongly now; it's the risk of classification for metals as dangerous substances. It's the case of the nickel that is considered as chronic toxic today. Will scraps fields of the steel makers become installations Seveso? Although an action is in progress with the Ministry for the Environment, FFA will have to carry this problem at the European level.

STANDARDIZATION

Two significant issues are to be recalled in the life and activity of the Steel Industry Standardization Bureau (BN Acier), in 2010:

- the new temporary approval granted in February 2010 in application of the new French ordinance on standardization (N. 2009-692 dated 16 June 2009);

- the operation of the new set of 14 national standardization commissions, reflecting the new structure of the European Committee for Iron and Steel Standardization (ECISS) with its new 12 technical committees, at the entire satisfaction of BN Acier partners. Beside those commissions, 4 other French standardization commissions, including a coordination group « Steel », have been maintained.

As far as the production of French standards is concerned, we have noted in 2010 a number of publications lying around the average observed during the past three years, i.e. 26 published documents (of which 22 were of European or international origin).

The number of documents (European Standards or Technical Reports) prepared or examined by ECISS, ratified in the field of steel products made by the steel industry and transformers, reached a total of 404 documents at the end of 2010. To this date, the number of work items registered in the ECISS work programme is equal to 133, i.e. + 12.7% in comparison to the end of 2009, including 23 new work items (i.e. 17% of the total, again a level lower than the preceding year).

After a year 2009 very perturbed by the consequences of the world crisis, the activity level of the French, European and International standardization bodies has increased to a level quite close to the one before the economic crisis. The total number of meetings held by these standardization bodies attended by BN Acier engineers (108 meetings) has increased of around 25% in comparison to 2009. Two significant elements are to be noted: the on-going implication in the standardization works in the field of the environment noted (in particular greenhouse gas emissions, life cycle analysis, etc.) and a number of International standardization meetings greater than the one of European bodies. The main subjects, within the scope of BN Acier in which its engineers were particularly involved during this period, were as follows: structural steels (long products, flat products, sheet piling, flat products for cold forming), steels for concrete constructions (reinforcing steels, prestressing steels), stainless steels, wire and other cold drawn products, coated and non-coated flat products for cold forming, tubes, mechanical testing of metals and chemical analysis).

In 2010, the BN Acier engineers also participated to activities related to standardisation: participation to product certification bodies (AFNOR Certification, AFCAB, ASQPE), accreditation bodies (COFRAC), professional bodies (AIMCC, CEPMC, EUROFER) and bodies in charge of regulations or their follow-up (DGCCRF for food contact, DG Santé for contact with drinking water, GRO D PRO the French mirror group of the Standing Committee for Construction), in which BN Acier engineers represent the steel profession. In that case, the number of meetings attended in 2010 (a total of 74) has significantly increased, partially because of the work on the new European Regulation on « Construction Products » and common actions with other federations and/or trade unions representing producers and transformers of non-ferrous metals in the field of Environmental Product Declarations (EPDs), essential tool for the evaluation of the Environmental Building Performance.

KEY FIGURES FOR STEEL in France in 2010

Crude steel production	**15.** million tonnes
% share of electric steelmaking	**36.3%**
% share of continuous casting	**95.9%**
Deliveries of steel products (excluding re-rolling products in France)	**16.9** million tonnes
Turnover of steelmaking activity	**11.5** billion euros
Foreign trade: exports imports	**9.2** billion euros **8.8** billion euros
French consumption of finished steel products (apparent consumption)	**12.9** million tonnes
Total deliveries of first processing products	**2.5** million tonnes

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