

STEEL DIALOG Lower Saxony 2016

Joint Declaration of

- the Lower Saxony Ministry for Economic Affairs, Labor and Transportation**
- IG Metall, German Metalworkers' Union for Lower Saxony and Saxony-Anhalt**
- the German Steel Federation**

For a strong and competitive steel industry in Lower Saxony

Lower Saxony is a strong steel producing federal state. The high-grade steel produced here will continue to play a key role in Europe's industrial value creation in the future. Around 7.2 million tons of crude steel a year are produced in lower Saxony, equivalent to 17 percent of Germany's output. Some 10,000 people are employed in Lower Saxony's steel industry, which accounts for 10 percent of Germany's steel workforce.

The steel industry is a materials supplier that is critical to Lower Saxony's industrial value-creation networks. It is necessary and indispensable for securing the regional industry's ability to perform and innovate, and it sends a ripple effect that extends way beyond the boundaries of the federal state into Germany and across Europe.

Steel-based industrial value-creation networks are also the prerequisite for the German industry's export success. Almost 1.5 million tons of rolled steel products worth € 1.1 billion are exported from Lower Saxony everywhere in the world. This volume represents 8 percent of Germany's entire rolled steel exports. Here, not only the direct export of steel products is important. Indeed, indirect exports, that take the form of innovative end products made of steel, secure the economic foundations of our country.

The sector is, however, faced with huge challenges, particularly on the international steel markets, but also in the area of energy and climate policy. Against this backdrop, it is the shared interest of the participants of the Lower Saxony Steel Summit Conference to strengthen Lower Saxony as a steel location. With this aim in mind, the participants of the Steel Summit Conference – the Ministry for Economic Affairs, Labor and Transportation, IG Metall and the German Steel Federation – have identified the following areas of action:

Disruption in global trading

The steel industry is currently experiencing a global crisis caused by massive surplus capacities on a global scale, above all in China. Its partners look on in consternation as the global market is therefore flooded with steel products at rock-bottom prices. The export of Chinese steel companies alone climbed to around 112 million tons in 2015. By comparison: steel demand in the entire EU amounts to only 150 million tons.

The partners are concerned that the Chinese steel industry, with its so obviously dumped and respectively subsidized products, hinders fair competition, and puts additional pressure on European steel companies. Many steel companies have only just leveraged themselves out of red figures through painful restructurings and capacity reduction.

The undersigned declare themselves in favor of free and fair trading and reject protectionism. Competition must take place in compliance with the WTO.

Consequently, a European foreign trade policy with instruments that are effectively designed and efficiently deployed is necessary. In comparison with other regions of the world, the instruments available to date are too ponderous. Only after proof of considerable damage over a period of twelve months do the EU authorities actually even accept legal proceedings. This means that procedures take around twenty months in the EU until effective countermeasures are taken to protect local industry, which is twice as long as in the USA. The investigation procedure must therefore be significantly curtailed.

Moreover, the alliance partners are troubled about China being granted market economy status, which could worsen the situation further still. Recognizing China as a market economy must be contingent on fulfilling the five criteria that the EU itself has defined as a precondition for such status.

Energy and climate protection policy

Germany's transition to renewable energies presents society with a major challenge. Lower Saxony's steel industry embraces the key tasks of the future for the economy and society, and therefore naturally also for climate protection. In this environment, new rules and regulations on European emissions trading are intended to incentivize energy efficiency and modernization without endangering the competitiveness of companies. Developing products that contribute to enabling this course of action to take place in technical and economic terms is what is needed.

The common goal is to reduce CO₂ emissions. Accordingly, a smooth transition to an industry that is low in CO₂ is called for, a transition that the partners support through innovation and creativity. Germany's energy supply must be secure, clean and affordable. From the standpoint of Lower Saxony as an industrial location, it is particularly important that this triad of goals does not develop into an imbalance detrimental to Germany's steel companies' ability to compete internationally.

The costs of the renewable energies policy must be distributed in a way that remains viable for energy-intensive industries as well. The German government's endeavors to retain the special equalization scheme under the German Renewable Energies Act (EEG) are most welcome. The permanent and full exemption of companies generating their own electricity based on process gases (cogeneration gases) so typical of the steel industry and other residual energies from the EEG apportionment for existing and new plants is necessary, as this makes ecological sense.

The Lower Saxony Ministry for Economic Affairs, Labor and Transportation, IG Metall and the German Steel Federation view the proposals of the European Commission on regulating EU emissions trading with concern. These proposals, particularly those set out below, could threaten the very survival of Lower Saxony's steel industry:

- flat rate reduction of the benchmark without considering the technical and financial feasibility,
- the further application of the reduction factor across various sectors and
- compensation of the electricity price merely on a proportionate basis.

The deliberations on EU emissions trading in the coming months must have the aim of ensuring that Lower Saxony's steel companies are not disproportionately burdened in the international competitive arena so that they will continue to maintain their positions on the fiercely contested steel market and be able to invest. At this point, the partners call to mind most particularly the resolutions of the European Council of October 24, 2014, under which carbon leakage is to be avoided and the most efficient plants (10 percent) are not to be burdened with disproportionately high costs through emissions trading.

Generally speaking, this necessitates determining the benchmarks for free allocation based on actual data from the most efficient plants in the top 10 percent in a way that makes them achievable in an industrial scale-up, both in technological and economic terms. Additional curtailments, such as annual deductions on the benchmark or the correction factor, must be dispensed with. Furthermore, the benchmarks must also fully reflect electricity generated from process gases in the steel industry.

In this context, the position paper of the State Government of Lower Saxony on the free allocation to companies at risk from carbon leakage in the context of emissions trading from 2021 onward

is expressly welcome. This paper outlines the essential problems while indicating options for solutions.

In addition, the compensation of emission trading-induced hikes in the electricity price is set to become even more important for preserving international competitiveness in view of the imminent increase in allowance prices and must therefore be retained and implemented in its full scope in the future.

The partners will discuss all possibilities on how the steel industry in Lower Saxony can expedite the development of materials for enhancing efficiency through stepping up research endeavors. Renewable energy plants and environmental technologies are forward-looking sectors for new markets and further innovations, as exemplified by the manufacturing of wind turbines that is evolving into an important sales market.

Co-determination

Codetermination, particularly the German Co-determination Act applicable to the coal and steel industry (Montanbestimmung), has proven its worth as a location factor, while contributing to securing and ensuring the stability of Lower Saxony's steel industry. In this environment, new challenges are also best tackled together in the future as well.

In addressing these challenges, the task will always be to secure the joint interests of steel companies and their employees, commercial success and jobs for the future.

The digital age is encompassing areas of the working world to an ever increasing extent. Digitalization of the working world necessitates new strategies for social security systems and for co-determination. Solutions based on social partnership remain a key to identifying the opportunities, challenges and risks entailed by rapid technological developments and actively shaping digital change.

Digitalization and Industry 4.0

The steel industry is characterized by the integration of a tight network of suppliers, customers and research institutes that is undergoing dynamic development, driven by the concept of Industry 4.0. For the steel industry, taking appropriate account of the changes associated with the new technologies is essential. In this process, the interface between man and machine must be assigned special importance.

The partners are unanimous in their opinion that the necessary link between universities and research establishments, on the one hand, and companies, on the other, must be reinforced. The concern must be to steadily build up innovation transfer, thereby opening up the best possible opportunities for companies to integrate specific application-oriented innovations from digitalization into their production processes. At the same time, it will be necessary, together with the trade unions, to adjust the working world, as well as further training and qualification, to the requirements of digitalization, while striving to achieve a mutually beneficial balance between the value-creating processes of a company and the interests of the employees.

Acceptance

The undersigned are wholeheartedly committed to future investments in the steel industry given fair framework conditions. They want to support the companies and campaign for the public's acceptance. In doing so, they take the arguments put forward by critical citizens seriously, provide comprehensive information at an early stage, and search for fair solutions through open discussion. Planning and approval procedures need to be rapidly carried out.

Industry's products and technologies are anchored in a broad understanding of the general public. They contribute to solving the challenges facing society. New plants for production and infrastructure-related expansion and conversion continue to require society's acceptance. Lower Saxony is committed to its culture of dialog. The state government will continue its work on increasing the acceptance of industrial and infrastructure projects.

Conclusion

Lower Saxony's steel industry is excellently positioned with its products, both technologically and in terms of quality. With its materials, the industry forms the basis of high-performance and innovative value-creation networks. In assuming this role, it is committed to its environmental responsibility and to developing sustainable production processes. Nonetheless, it also has to compete with international companies that are not exposed to comparable regulations from policies on energy and the environment. In this context, however, and in particular in relation to the international steel markets, the sector's survival is threatened by distortions.

The undersigned agree that the political and legal framework conditions must be defined in a way that avoids investment leakage in Europe's and Germany's steel locations and does not put the European Commission's goal of reindustrialization at risk. They are therefore concertedly campaigning in Berlin and Brussels for the preservation of a strong steel industry. A competitive steel industry is absolutely essential in order to be able to invest in forward-looking sustainability and fund sustainable research and development. Otherwise it will not be possible for the economy to remain an engine of innovation in the future as well. This is the only way of securing the valuable jobs in the German steel industry in a sustainable manner, and guaranteeing the prosperity of our country into the future.

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