

**Lunch EU Informal Industry Council of Ministers  
Louvain-La-Neuve, Wednesday July 14, 2010  
Speech Michel Wurth, Member Group Management Board,  
ArcelorMittal  
“An Industrial Policy for the European Steel Industry”**

Louvain la Neuve, Belgium

Good morning ladies and gentlemen. It is a great honour for me to be able to address this important gathering of the 27 EU governments as well as the EU Commissioner for Enterprise Mr. Tajani. First, Mr. Mittal sends his apologies and his regards and has asked me to represent him today.

I am sure that our exchange of views and ideas at today's meeting will prove very helpful to us all.

Let me begin by saying that while we have overcome the worst of the economic crisis we still need to be very cautious.

Europe is facing significant challenges: the crisis saw industrial production falling back to 1990 levels, with high unemployment levels as a result. In addition, globalization is dramatically changing the balance of power. For example, Europe has to pay the going global rate for all its raw materials and most finished products.

Emerging economies are investing strongly in R&D and “leapfrogging” into the global economy. The sovereign debt crisis has added to the complexity. The recent weakness of the euro has helped the EU to restore relative competitiveness in international markets, but this effect seems only temporary.

I have been impressed, however, by the sense of urgency that underlies the “Europe 2020” strategy which has recently been endorsed by the European Council. Let us hope that lessons have been learned from the failures of the Lisbon strategy and that genuine cooperation will bring success this time round.

I am particularly pleased that the flagship projects in the strategy hit the right targets, by focusing on innovation, resource efficiency, new jobs and skills and the need for an effective industrial policy. It will of course be necessary to commit the necessary budgetary resources and maintain the political will to implement these projects.

Perhaps I could now give you a very brief overview of the world steel industry and the place of ArcelorMittal within it.

You will be aware that the steel industry is still fairly fragmented by comparison with other industries. ArcelorMittal is the largest steel company in the world, accounting for about 7-8% of world steel production. And, as you know, our company is the result of a process of consolidation which has produced a true European champion on the global stage and this global consolidation will certainly continue.

Without the consolidation achieved to date, it is my view that the consequences of the global economic crisis would have been much more serious, and not just for our industry. A great deal of credit is due here to government stimulus packages including measures which facilitated part time working and early retirement to help manage the crisis.

However, looking to the current state of our industry, steel demand in the US, Japan and Europe is still not expected to normalise this year. The world needs growth, or capacity reductions and industrial restructuring will be unavoidable.

In addition, we have been confronted with increased volatility and cyclicity in the raw materials market. This is a consequence of the oligopoly structure of the three largest iron ore mining companies, who account for 69% of the seaborne iron ore market. An 80% price increase for iron ore compared to 2009 and a change from annual to quarterly pricing are putting a strain on the already cautious rate of recovery.

There is no doubt that the speed of the recovery is different in the developed and developing countries.

Growth in the OECD this year is forecast at 2%, but emerging markets are set to grow at three times that rate.

Steel production in the developing world has risen from less than half of global production ten years ago to 70% in the first quarter of this year. Currently, about 50% of all steel is made in China. The EU (including CIS) accounted for approximately 36% of global steel production in 2000 but only 23% in 2010.

Our strategic response to all this has three facets: we plan to (i) become less dependant in purchasing raw materials, (ii) grow in emerging markets, and (iii) remain or become more competitive in developed markets.

It is therefore not surprising that our future investment plans include significant capital expenditures in emerging markets. We currently have two expansion projects planned for Brazil; a new joint venture in China which will produce automotive products and electrical steel; we have major ambitions for green field sites in India; and by the end of next year we will even be producing 250,000 tonnes a year of rebars in Iraq.

I want to stress though that ArcelorMittal is a global company with very strong roots in the developed world, where around 70% of our production capacity is located. In particular, our headquarters are in Luxembourg and the EU is still our highest steel producing region.

Let me be clear. Europe is at the heart of steelmaking and we want to continue to be a part of its future. The presence of great infrastructure, a skilled workforce and political stability are key factors for reconfirming our strong commitment to Europe.

Steel is one of the building blocks, literally, of modern societies. In broad terms, metal processing is something that Europe does very well. Steel is a significant part of this and thus competitive and innovative steel is key to the future of all the businesses in this value chain.

We need to make sure that our customers maintain a strong and innovative production base in Europe so that we can meet their needs for machinery, infrastructure, transport equipment, energy, and so on. This is essential to support its growth, which is itself a pre-condition for the EU to restore a durable balance in its finances and to meet its social commitments.

The steel industry has to make itself more competitive in order to survive. And on a much broader scale, so does Europe. As an industry, we need more flexible regulation and labour markets and we need to control costs, particularly in energy and transport, and the ever increasing costs of environmental regulations. We also need more focus on incentivising R&D and boosting investments. I venture to suggest these needs are common to all industries and even all countries.

---

Against the industrial background I just laid out, there is a need for an appropriate policy framework that sets the right conditions for doing business. The Belgian Presidency has rightly emphasized the need for a coherent European policy.

So let me give you my views as to what I think the European Commission and Governments can do to help European industry to become best in class?

Let me first make a general comment. In my view it is the function of business to create value in a responsible way, with a strong focus on environmental and social sustainability.

For their part, governments need to create a transparent and simple legal framework which provides certainty for companies to invest and compete, while also setting environmental and social objectives. But we urge governments not to adopt excessive environmental standards which would jeopardise sustainable investment.

Europe's industrial policy should obviously integrate all other policies, such as those covering infrastructure, the environment, energy, social issues, innovation and R&D.

Let me now share with you some thoughts on **5 key topics** which are fundamental for our industry, i.e. climate change, trade policy, raw materials, energy, and training of people.

**First**, I must convey our views on **climate change and the ETS**. As an industry and a company, we are committed to tackle climate change but we firmly believe that this is a global challenge which needs a global policy solution.

ArcelorMittal has set a global objective of an 8% reduction in its CO2 emissions; this is a significant step which we aim to achieve through investments in energy efficiency and benchmarking.

We know that more substantial reductions in CO2 emissions can only come from breakthrough technologies in which we are also active. To be more precise, we are taking a leadership position in a consortium called ULCOS aimed at finding breakthrough technologies which would potentially reduce CO2 emissions by at least 50%.

---

However, we do need strong signals of support and significant funding help from the EU and governments as one pilot and test project will cost approximately Eur 500 million. We cannot absorb this cost alone, in particular in the post crisis environment

On the policy side, carbon constraints that are unilaterally imposed by individual jurisdictions will result in the so-called “carbon leakage”, a phenomenon whereby energy intensive industries will have lower costs in countries where no such constraints exist. This would have strong distorting effects for all European metal processing industries.

Unfortunately, such a development will have adverse effects not only on investment, employment and R&D in the jurisdictions where carbon constraints exist but, what is more, will not achieve the environmental goal of reducing CO2 emissions on a global level.

We therefore urge the EU and your governments to stick to the 20% greenhouse gas emission reduction target and not to move unilaterally to a 30% reduction. We simply must have a level playing field or we will not be able to compete at a global level.

Of course, the system of granting free CO2 allowances to steel companies in the EU ETS is one way of tackling this but it will only work if sufficient free CO2 allowances have been given. This principle was agreed at the December 2008 EU political Summit under the leadership of the French Presidency but the reality today is that we will not get all the free allowances we need!

Sadly, the current discussions in the EU demonstrate that all steel companies will most likely be subject to very stringent benchmarks against which free CO2 allowances will be given, i.e. the average of the best 10%.

In addition, there are ongoing discussions as to how to treat the free CO2 allowances for our waste gases which are converted into electricity by power companies. Our waste gases account for approximately 50% of our total CO2 emissions.

These gases are not lost but rather sent to the power industry so they can produce electricity in a very cost efficient manner. It now appears that we may risk not receiving 100% of the free allowances linked to these waste. Not only do I fail to see the logic in this but it will also further deteriorate the competitiveness of European steel companies.

---

Therefore, we urge the EU Commission and governments to seriously consider these points if we want to continue to have a strong manufacturing investment base in Europe.

Finally, let us not forget, wherever it is made, steel is a truly sustainable material in terms of its recyclability and versatility.

We must all work harder to explain steel's environmental superiority to concrete, wood, aluminium, plastic and any other material we are competing against on a daily basis, and compared with which steel has a host of advantages.

**Second**, the EU must maintain a level playing field on its trade policies and how it ensures that all regions adopt fair trading terms. Protectionism and trade barriers are not a solution for Europe or any other market.

We are a global company and want to compete in every market. It goes without saying however that the EU must keep a close monitoring eye on imports of steel which would take place under unfair trading conditions. As we come out of the economic crisis, we cannot afford to de-stabilize the restructuring efforts undertaken in Europe. We also need the euro at a level which permits us to be competitive in international export markets.

**Third**, the European steel industry is wholly dependent on third countries for the delivery of its iron ore and, to a large extent, also for coking coal. In order to ensure access to raw materials, EU industrial policy should include a trade chapter where such access is guaranteed through FTAs or other agreements with third countries.

Simultaneously, such a policy needs to be complemented by an EU sustainability agenda that encourages the recycling of steel so that the need for primary raw materials is reduced.

**Fourth**, another important factor is the price of energy. We are facing increasing energy prices and an uncoordinated policy in relation to different energy sources.

Uncertainties still exist in a number of Member States around the development of nuclear power and the high costs associated with the development of renewables.

---

The EU needs to establish a united policy on the energy sources for the future which will contribute to lowering its cost base.

**Last**, as I have said, Europe can only remain competitive if it continues to invest in educating and training its workers, while promoting flexibility.

As a steel company, we have a highly qualified and expert workforce. We take pride in continuously training them, but we still encounter shortages in the market for engineers and other skilled workers as well as a lack of global mobility of the workforce.

Instruments such as the European Social Funds are very useful but are difficult to access.

Ladies and gentlemen, I hope these comments can form a basis for further reflection on a European industrial policy. As I have said, I think the keyword is an integrated and coordinated policy which takes into account the views of all stakeholders.

It is my strong conviction that Europe can be cost-competitive. There are growth prospects within Europe and global players like ArcelorMittal are in a strong position to promote sustainable investment and growth in Europe.

Our product – steel – is a sustainable material with a future. We have a culture of value creation and innovation, which will help us to meet the expectations of increasingly demanding customers. We look forward to working with all of you to ensure that a proper regulatory framework is in place to move Europe forward.

We very much value the effective cooperation we have with the Commission and with national governments as we maintain our fight for a competitive European steel industry.

Thank you.

---