HILLMAN

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(75) 628 final.

Brussels, 9 December 1975

MEMORANDUM

FROM THE COMMISSION TO THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES MEETING IN COUNCIL CONCERNING

the ferrous scrap market situation in the Community and the measures to liberalize the export of ferrous scrap to non-member countries for the period 1st January - 30th June 1976.

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MEMORANDUM

FROM THE COMMISSION TO THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES MEETING IN COUNCIL, CONCERNING the ferrous scrap market situation in the Community and the measures to liberalize the export of ferrous scrap to non-member countries for the period 1 st January - 30 th June 1976.

1. The situation on the Community scrap market in 1975

The first factor which has influenced the Community scrap market in 1975 has clearly been the unfavourable development of steel production.

Activity in the Steel industry decreased by 18,7% during the first 10 months of 1975. According to the estimates of the Forward Programme Steel for the 4th quarter 1975, steel production for the whole year could decline by about 20% in comparison with 1974.

The development of the production of steel by process for the first seven months of 1975 in comparison with the same period of 1974 was as follows :

Bessemer	Open Hearth	Electric	Oxygen	Total
- 44,5%	- 23,5%	± 0% (1)	- 13,9%	- 15,4%

These rates of decrease must be examined in relation to the changes in production potential by process between 1974 and 1975 which is shown below (according to the 1975 enquiry) :

Bessemer	Open Hearth	Electric	Oxygen	Total
- 15%	- 10%	+ 11%	+ 12%	+ 6,9%

The results of this comparison are that Bessemer production has been proportionally the most affected by the reduction in activity in the steel industry whilst the electric steel process has been better able to adapt itself to the first phase of the reduction in demand for steel products.

(1) including independent steel foundries.

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In the 3rd quarter the fall in steel production reached 28% in comparison with the 3rd quarter of 1974 and has affected in equal measure the electric steel process. In the 4th quarter, following the estimates of the Forward Programme, the reduction in the production of crude steel could be 23,6%.

The second factor which has played an important rôle on the Community scrap market has been the changes occurring in the specific consumption of scrap in the steelmaking plants equipped with convertors.

In previous periods of recession in the steel industry the above steel plants have shown a tendency towards growth in specific consumption of scrap when its price falls below the marginal cost of liquid pig iron.

On this occasion, despite a marginal cost of pig iron around 30% above the price of scrap, the restrictions imposed by the long-term contracts for the delivery of iron ore and coke have made it completely impossible to increase the inputs of scrap. In fact the specific consumption of the oxygen steelmaking plants was for the first half-year of 1975 around 236 Kg/t in comparison with 246 Kg/t in 1974 and 254 Kg/t in 1973.

The overall specific consumption for the year 1975 will be around 432 Kg/t as compared with 427 in 1974 because of the changes in structure of production by process.

The supply and demand balance is included in Annex II. This balance shows the significant reduction in the activity of the dealers in 1975 (-19%) and allows an interpretation of the development of the Community scrap market.

It is necessary however to distinguish two distinct periods.

In fact during the first six months the deterioration of the situation has been contained by the less unfavourable development of the electric steelworks; a small improvement has even been in evidence in April and May.

By contrast, since the beginning of the summer the larger reductions in steel production coupled with the low level of specific consumption in the steelworks using convertors has resulted in a significant fall in the demand for scrap.

.../...

The quantities delivered and prices which fell in October-November 1975 to the level of January-February 1973 (at current prices) have as a result been heavily reduced.

At the above level of prices the complete coverage of the costs of collection and preparation would appear problematical notably in the case of light capital scrap.

II. Exports to third countries

Licences granted and quotas available

	D	F	BNL	UK	DN	Total
1st quarter 1975						
Licences granted	46820	23971	34290	14777	22385	142693
Quota available	48000	48000	38000	15000	25000	174000
Coverage	98%	50%	90%	99%	90%	82%
2nd quarter 1975						
Licences granted	44830	43301	60860	53504		
Quota available	100000	80000	80000	60000	30000	350000
Coverage	45%	54%	76%	89%		
3rd quarter 1975						
Licences granted	36345	33941	39319			
Quota available	80000	80000	90000	80000	30000	360000
Coverage	45%	42%	44%			

It appears from the examination of the table that, despite the increase in size of the quotas granted, the exports of scrap to third countries have not truly contributed to the maintenance of a satisfactory level of activity for the dealers.

The Commission has foreseen this development since the spring and it motivated their proposal for the 3rd quarter 1975 submitted to the representatives of the Governments of the Member States on the 19th June 1975 (document COM(75)299 final).

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III. Intra-Community Trade

The table below shows the development of three most important flows of intra-community trade, i.e. the French and German deliveries to Italy and the Dutch deliveries to Germany.

	F → I	G → I	H → G in 000 tons
Year 1974	2753	2081	1031
Monthly Average	229	173	86
1st Half Year 1975	1262	840	442
Monthly Average	210	140	74
July 1975	149	109	56
August 1975	60	87	44
September 1975	(248)	135	68
First 9 month 1975	1719	1171	610
Monthly Average	191	130	58
% reduction of monthly averages 1975/1974	- 16,6	- 24,9	- 32,6

The contraction in the course of the first nine months of the exchanges and its accentuation towards the end of the period reflects rather well the development of the market.

By contrast the exchanges between the United Kingdom and original member countries of the Community have increased

British deliveries to other ECSC countries

1000 tonnes

	D	UEBL	F	I	NL	DK	IRL
1974(1) (year)	61	40	25	41	3	-	22
1975 (8 months)	163	81	22	120	84	-	n.d.

(1) according to the import statistics.

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IV. Prospects for the end of the year 1975 and the beginning of 1976

The estimates for activity in the steel industry for the end of year 1975 and first quarter of 1976 indicate a stagnation at the level of the months september-october 1975.

The estimated balance for the first quarter of 1976 (Annex II) has been established on the basis of the continuation of this trend.

However within this stagnation a light improvement for long products produced by the electric process could occur in the weeks to come and even assert itself during the first months of 1976. This factor could contribute to an improvement in the situation on the scrap market during the first half of 1976; this market could again be characterized by a divergence in development in relation to the market for steel products comparable to that witnessed during the first half of 1975.

It should be noted that the 31st December 1975 marks the end of transitional period when quantitative restrictions were permitted in the exchanges of scrap between the Kingdom of Denmark and the other member countries. This integration will take place without particular problems.

V. Measures to be taken

The prospects sketched under point IV allows the conclusion that the supply of the Community steel industry will be satisfactorily assured during the first months of 1976.

For this reason the Commission proposes to the representatives of the Governments of the Member States meeting in Council to agree for the period 1st January - 30th June 1976 a quota for exports of scrap to third countries of the order of 500.000 tonnes for the whole Community. Such a tonnage lies below that agreed for the second half year of 1975 (700.000 tonnes) but here the weak coverage of the quotas since the second quarter of 1975 should again be recalled. In respect of export qualities no change should be made to the regime adopted for 1975 (essentially low qualities with good qualities forming around 15% of the total).

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Three other decisions will expire on the 31st December 1975 :

- the decision of the 10th July 1975 relating to the tempory export of scrap
- the decision of the 10th July 1975 relating to the tempory import of scrap
- the decision of the 10th July 1975 relating to the export of rolling mill rolls.

These three decisions should be renewed for the whole year 1976.

Further two other decisions will also expire on the 31st December 1975 :

- the decision of the 10th July 1975 relating to the export of alloy steel scrap
- the decision of the 10th July 1975 giving an additional quarterly quota to the Kingdom of Denmark of 20 000 tonnes of scrap of all qualities.

These last two decisions should be renewed for the first half year of 1976.

Scrap iron prices

Month	Germany	Belgium	France	Italy: French scrap delivered Modano	Italy: German scrap delivered Basle	Italy: Italian scrap ex works	Netherlands	United Kingdom	Composite price end of month HMS No
	Scrap metal prices for the 03 category of the new classification of scrap metals in the Community, ex works, tax free								
	DM/t	B/t	FFr/t	FFr/t	DM/t	It.Lire/t	Dfl/t	£/t	$/t
1973									
January	127	2 100	210	270	152	29 000	135		50.83
July	154	2 800	285	360	200	53 000	185		54.17
December	196	3 200	315	440	245	63 000	227.5		77.83
1974									
January	211	3 700	370	510	275	72 000	237.5		92.50
April	372(1)	5 400	505	780	390	100 000	425	20	111
July	256	4 000	510	630	310	90 000	270	27	125.17
December	259	3 500	415	540	300	75 000	290	31	86.50
1975									
January	237	3 450	395	460	245	72 000	255	± 28	76.33
February	187	2 500	340	340	160	52 000	180	± 24	78.50
March	157	2 200	280	340	160	52 000	155	..	84.50
April	167	2 700	305	480	240	67 000	175	..	84.33
May	167	3 100	335	390	200	63 000	200	± 19	77.17
June	165	2 500	315	370	190	60 000	200	22	59.0
July	(170)	-	290	340	170	50 000	180	22	58.17
August	(170)	-	290	340	170	50 000	175	20	76.83
September	(170)	2 450	290	340	170	52 000	170	20	68.00
October		2 300	270	320	160	47 000	160		58.50
November				285	145	45 000	150		58.50(19.11
December									

(1) Since April Category 0 of the new German classification

Annex II

Supplies and requirements of scrap in the Community
('000 000 tons)

	1974 Year	1974 Monthly Average	1975(e) Year	1975(e) Monthly Average	1976(f) 1e Quarter	1976(f) Monthly Average
Demand						
Consumption in steelworks	66.5	5.54	54.0	4.50	13.1	4.37
Consumption in blast furnaces	1.8	0.15	1.4	0.12	0.4	0.12
Consumption in rolling mills	0.5	0.04	0.5	0.04	0.1	0.03
Variations in stocks	+ 0.9	0.08	+ 0.4	0.03	± 0	± 0
Exports	0.6	0.05	0.8	0.07	0.2	0.07
TOTAL	70.3	5.86	57.1	4.76	13.8	4.59
Resources						
Recuperation in iron and steelworks	31.8	2.65	25.6	2.13	6.2	2.06
Net internal purchases	36.9	3.08	30.0	2.50	7.3	2.43
Imports	1.6	0.13	1.5	0.13	0.3	0.10
TOTAL	70.3	5.86	57.1	4.76	13.8	4.59

(e) = estimation (f) = forecast