COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 3.8.2005
SEC(2005)1039

COMMISSION STAFF WORKING DOCUMENT

Annex to the

Report from the Commission to the Council and the European Parliament

"Second monitoring report on steel restructuring in the Czech Republic and Poland"

{COM(2005) 359 final}

1. INTRODUCTION

The finalisation of the steel restructuring in the new Member states and the full integration of the respective companies into the Internal Market remains a major challenge. Many companies in both countries did not achieve viability before accession on 1 May 2004, and the respective governments granted financial support on the basis that the beneficiaries would become viable in the long term. For this reason, transitional periods were negotiated between the European Union and the Czech Republic and Poland to allow the granting of state aid to specific companies. This exemption from the state aid rules is subject to certain obligations, both for the respective governments and for individual companies, which are set out in Protocols incorporated in the Treaty of Accession. *Protocol 2*[1] refers to the restructuring of the Czech steel industry and *Protocol 8*[2] to the restructuring of the Polish steel industry.

The Protocols also set out detailed provisions for monitoring and reporting on these obligations, including that the Commission reports to the Council.

On the 7 July 2004 the Commission adopted its first monitoring report on steel restructuring in the Czech Republic and Poland for the year 2003[3]. In this report the Commission identified delays in the restructuring process, in particular in relation to investments. It recommended both countries to profit from the positive market conditions and to accelerate the restructuring process in the coming years so that the relevant companies would be able to achieve viability by the end of the restructuring period.

This second monitoring report, which is based on the national monitoring reports notified by the Member States authorities, as well as on independent evaluation and discussions with stakeholders, underlines the fact that steel companies are operating in an exceptionally good market that has shown levels of demand for steel and steel prices not seen for years. This has helped the companies to improve their sales and operational results considerably and should have facilitated the implementation of the restructuring programmes.

The evaluation of the results, however, shows that some companies are still underperforming and may fail to become viable by the end of the restructuring period on 31 December 2006. As there are only 18 months left until that target date, the recommendations to companies and authorities are therefore of major importance.

The Commission emphasises that if the companies do not restore viability by the end of the restructuring period, it will analyse the reasons for this state of affairs. If failure to restore viability is due to the fact that the restructuring measures envisaged in the National Restructuring Programme and Individual Business Plans have not been carried out as planned, it is possible that action could be taken to recover aid which has been given.

---

[1] OJ L 236 of 23.9.2003 p. 934

[2] OJ L 236 of 23.9.2003 p. 948

[3] COM(2004)443 final

Similar to the working document that accompanied the first monitoring report on steel restructuring adopted in 2004[4], the present working document describes the progress achieved during 2004. It contains the following elements for each of the countries:

- a description of major developments linked to the restructuring programme;
- an evaluation referring to state aid and key restructuring benchmarks as defined in the annexes to the Protocols (capacity reduction, productivity, costs reduction, investments and viability) with the respective recommendations.

2. DETAILED PROGRESS REPORT ON THE RESTRUCTURING OF THE CZECH STEEL SECTOR

In 2004, the Czech Republic remained the second largest steel producing country among the new Member states, with an annual production of 7 million tonnes crude steel, behind Poland. It also had the largest steel consumption per capita, based on a dynamic manufacturing industry, with machinery and mechanical engineering sectors responsible for nearly half of the domestic steel consumption. Exports decreased by 1 % while imports increased by 23.4 % compared to the previous year, but the Czech Republic remained a net exporter of steel in 2004 (see point 4: key figures on steel).

The Protocol specifies the restructuring conditions for the following three steel producers: Ispat Nova Hut a.s., Vitkovice Steel a.s. and Valcovny Plechu Fridek-Mystek a.s.

2.1. Main developments in the Czech Republic in 2004

In November 2004, the Czech Government adopted a resolution on the privatisation of Vitkovice Steel through the sales of the shares held by Osinek to a strategic investor. The tender process has been launched and the final contract is expected to be signed by mid 2005. The final privatisation contract will however be conditional upon the implementation of the restructuring programme and the approved business plan, by the new owner.

The finalisation of the privatisation of Valcovny Plechu Fridek-Mystek a.s. by the sales of the remaining shares to Ispat Nova Hut was delayed, mainly due to the change of the government in summer 2004, and has been postponed until 2005.

In March and September 2004 and March 2005 the Czech Republic submitted its six-monthly monitoring reports as required by the Protocol.

2.2. Macroeconomic environment and market developments

In May 2004 the Czech Republic became a member of the European Union, and consequently the Single European Market, which coupled with some recovery in the former Member States helped boost gross domestic product (GDP) up to 3.7 %.

[4] SEC(2004) 891 Annex to the Report from the Commission

Industrial output increased by 10.2 %, which together with new foreign direct investments significantly supported the growing domestic demand for steel. The Czech steel production increased by 3.2 % in volume and the tonnage supplied to the domestic markets increased by 6 %.

The strong increase in sales prices reflected on one side the increasing demand of the domestic and export markets and on the other side, from the end of 2003 onwards, the rising costs of raw materials.

Although production costs rose strongly as the consequence of the sharp price increase of raw materials, this was offset by a stronger CZK/USD exchange rate and the increased revenue from record steel prices.

2.3. Monitoring of state aid to the steel sector in Czech Republic

Accession Treaty provisions

The Protocol stipulates that state aid granted to the three beneficiary companies is limited to a maximum of CZK 14.14 billion (€ 437[5] million) in the period 1997-2003. It also specifies the maximum amounts which may be granted individually to each of the three beneficiary companies.

Assessment of monitoring findings

The amount of state aid played a significant role in the implementation of the Czech National Restructuring Programme and is an important element to assist the companies in achieving viability. The aid was focused primarily on financial restructuring to address the debt burden of the companies so as to facilitate their access to financing and their acquisition by a strategic investor.

The Commission can confirm the conclusions of its first report that the assessment of the information available showed that the state aid granted to beneficiary companies remained well below the ceilings provided by the Protocol. This applies to both the overall amount of state aid and the individual amount for each beneficiary company. It also concluded that despite the fact that the amount granted was below the agreed ceiling, this did not have a critical effect on the financial projections of the companies.

2.4. Monitoring of the key restructuring benchmarks in the Czech steel sector

2.4.1. Capacity reduction

Accession Treaty provisions

The Protocol specifies that the net capacity reduction to be achieved by the Czech Republic for finished products (hot rolled and cold rolled) during the period 1997–2006 shall be 590,000 tonnes.

[5] CZK/Euro Exchange rate 32.329 (average December 2003)

A timetable for the closure and dismantling of installations, as well as new capacities to be installed, is specified. The reduction in production capacity must be achieved by physical destruction of facilities.

Assessment of monitoring findings

The Protocol required the permanent closure of the hot rolling mills N° 1 & 2 at Valcovny Plechu Fridek-Mystek by 31 December 2005. On 1 December 2004 the Czech Republic informed the European Commission of the envisaged postponement of the closure of these hot rolling mills and asked for approval. On the basis of article 12 of the Protocol 2, the Commission raised no objection[6] to the proposed change of the Individual business plan of VPFM, which envisages continuing the production of these mills until the end of 2005 and their permanent dismantling by 30 June 2006. The permanent closure will thus be postponed by six months.

There were no other capacity reductions scheduled for 2004 and the Czech authorities confirmed their commitments to implement the capacity changes as outlined in the Protocol.

2.4.2. Productivity and employment

Accession Treaty provisions

The Protocol specifies that "employment restructuring shall be implemented; levels of productivity comparable to those obtained by the EU steel industry shall be reached by 31 December 2006."

Assessment of monitoring findings

The Czech steel industry has experienced a significant reduction in employment over the last decade. Total employment was reduced by approximately 65,000 employees between 1990 and 2000. This led to an increase in productivity levels, which since 2003 are comparable to those of EU steel producers.

The monitoring shows that in 2004 the employment reduction was mainly the result of outsourcing of service activities and rationalisation of the production process. The trend was also supported by a voluntary redundancy scheme. Only one company did not achieve the targeted employment level due to the delay of closing its facilities as reported above.

The sharp increase in productivity levels during 2004 was the combination of increased output and employment reduction.

The social restructuring of the Czech steel sector is accompanied by regular consultations among the stakeholders involved, including the Metals Workers Trade Union (KOVO) and the authorities. The Associated Social Programme, a specific steel sector related action, was prolonged until the end of the restructuring period. An

---

6 For details, see the decision which is publicly available under: http://europa.eu.int/comm/competition/state_aid/decisions/n600_2004/en.pdf

evaluation of the programme has been carried out, which concluded on the success of this measure.

2.4.3. Cost reduction

Accession Treaty provisions

It is envisaged that the companies will implement a costs savings programme.

The reduction of manufacturing costs should be achieved through various methods: modernisation of facilities, reductions in employment, reduction of material and energy costs, improvements in production management, as well as lowering of the cost of external services such as maintenance and transport.

Assessment of monitoring findings

All beneficiary companies continued the trend, which was reported in the first monitoring report to actively manage and control their financial, overhead and purchasing costs.

Substantial efforts were realised in rationalising the production process and cutting employment costs. Good management practices and the application of cost reduction programmes contributed to further reduce costs. For energy costs however, the evaluation shows that the reductions achieved were mainly the result of increased output and the related economy of scale and that there is still a significant margin to further reduce this important cost factor.

In general, the cost reduction in the area of raw material consumption was largely offset by the strong increase on in the cost of the raw material such as iron ore, coke and scrap. It is therefore even more important to realise the necessary investments which aim at cost reduction. Major efforts in yield improvements need to be followed as well.

2.4.4. Viability

Accession Treaty provisions

The Protocol envisages that "taking into account the special accounting rules applied by the Commission services, each benefiting company shall achieve a minimum annual gross operating result of turnover (10 % for non-integrated steel undertakings and 13.5 % for integrated steel mills) and a minimum return on own capital (1.5 % of turnover), no later than 31 December 2006".

Assessment of monitoring findings

The main goal of the restructuring process and of all actions envisaged under the National Restructuring Programme and the Individual Business Plans is to achieve the viability of the companies under normal market conditions. The viability test developed by the Commission's services is a tool to measure the financial effects of the different restructuring measures planned in the companies' business plans. The viability indicators are to be considered in the appropriate timeframe. The assessment on the viability projections should take into account that the goals are not to be achieved in a single year, but companies are to achieve viability only by the end of 2006 (end of the restructuring process).

The independent evaluation of the progress achieved in the restructuring of the Czech steel sector during 2004, did confirm a major area of concern for two beneficiary companies listed in Annex 1 of the Protocol, Vitkovice Steel a.s and Valcovny Plechu Fridek Mystek a.s, with regard to their investment programmes, which are behind schedule. Both companies were not able until now to secure loans for the purpose of making investments, especially in quality improvements. As a consequence, the companies were not able to benefit at full length from the excellent domestic and global market conditions, because they could not compete in terms of quality of steel products.

Other profit improvement opportunities such as cost reduction and increased sales on the domestic market only partly compensated for the loss of income and in both cases, Vitkovice Steel a.s and Valcovny Plechu Fridek Mystek a.s, the operating margin remained below threshold. This means that under normal market conditions, both companies would fail to pass the Commissions' viability test at the end of the restructuring period.

The analysis above, is however, expected to be favourably influenced over the coming months by the announced finalisation of the privatisation process of the Czech steel sector. So far, concluding from previous experience, the acquisition by a strategic investor has a significant impact on the operational results of a company. This is a consequence of the combination of key determinants such as improved management structures and its consequences of cost reduction, yield improvements and marketing reorientation, as well as the improved possibility to secure investment loans.

Taking this into account, the coming months are thus decisive for the Czech steel sector to reach sustainable viability. In order to facilitate the expected developments it will be crucial for the Czech authorities to finalise the privatisation of the steel industry. In parallel all companies need to continue their restructuring efforts, in particular those aiming at reducing costs and producing higher quality steel products.

Other Protocol requirements

2.4.5. Environmental protection

The Protocol specifies that beneficiary companies need to comply by the time of accession with the relevant EU legislation in the field of environmental protection, and in particular to make the necessary investments to ensure such compliance.

Since January 2003 the Directive on integrated pollution prevention and control (IPPC directive)[7] is fully applicable in the Czech Republic. Czech steel companies had to invest in the abatement installations such as sinter plant de-dusting, steel mill waste water treatment stations or the construction of new solid wastes landfills and

7 OJ L 257, 10.10.1996, p 26

an integrated permit needs to be issued to 114 facilities in the steel sector by January 2007.

All beneficiary companies applied for such a permit and some of them did already receive an integrated environmental permit. Each company has adopted an Environmental Management System based on ISO 14 000 series so as to facilitate compliance with the legislation.

On the 12 April 2005 the Czech national allocation plan for green house gas emissions has been approved by the European Commission. In comparison to the plan initially notified, the total allocation of allowances has been reduced by 10 %. The possible impact on the steel sector still needs to be evaluated.

3. DETAILED PROGRESS REPORT ON THE RESTRUCTURING OF THE POLISH STEEL SECTOR

Poland is the biggest steel producer among the new Member States, with a crude steel output of 10.5 million tonnes in 2004. The country is a net exporter of steel. Exports showed a significant increase of 31 % in 2004, amounting to 4.6 million tonnes. Imports amounted to 3.6 million, an increase of 14 % compared to last year (see point 4: key figures on steel).

The steel sector plays a key role in the national economy contributing to around 2.6 % of GDP. It shows a strong regional concentration in the Silesia region. The sector employs 38,250 people of which around 70 % are employed in the companies beneficiaries of state aid. The sector generates around PLN 20 billion (€ 4.4 billion) The main steel group is Mittal Steel Poland (MSP)[8], which accounts for 65 % of the total production, 60% of the turnover and 57 % of the total employment in the sector.

The Protocol specifies the restructuring conditions for the following eight steel producing companies: PHS (Polskie Huty Stali, now Mittal Steel Poland), Huta Andrzej, Huta Bankowa, Huta Batory, Huta Buczek, Huta Lucchini-Warszawa (HLW), Huta Labędy and Huta Pokój.

Huta Andrzej went into receivership on 21 February 2003 and its assets were sold by the receiver in October and November 2004. Huta Batory was declared bankrupt on 4 June 2003 (the assets of the company were sold by the receiver in March 2005). The companies were therefore not eligible to receive state aid any longer.

3.1. Main developments in Poland in 2004

The main changes in ownership in the steel sector are the following. The privatisation of the PHS group a core element of the National Restructuring Programme, was finalised on 5 March 2004 after the Commission had approved the transaction on 5 February 2004[9] considering it in line with the EU Merger Regulation. The company was acquired by LNM group (now Mittal Steel).

---

8 Previously called Polskie Huty Stali, PHS and after privatisation Ispat Polska Stal, IPS

9 Commission Decision of 05/02/2004 declaring a concentration to be compatible with the common market (Case No IV/M.3326 - LNM / PHS) according to Council Regulation (EEC) No 4064/89

The sale of Huta Częstochowa, the second biggest Polish steel producer, by the state and the creditors of the company started in the second half of 2004 and is expected to be concluded by summer 2005.

In March and September 2004 and March 2005 Poland submitted six-monthly monitoring reports as required by the Protocol.

3.2. Macroeconomic environment and steel market developments

The Polish steel sector has operated in very advantageous economic and market conditions in 2004. The positive trend in the Polish economy intensified in 2004, with a growth of GDP of 5.5 %, the highest level in the last seven years, while industrial output registered a growth of 13.4 %. At the same time the Commission observes an acceleration of inflation and interests rates breaking the downwards trend of last years. The PLN exchange rate has appreciated against the US dollar and depreciated against the Euro.

The country's economic performance was reflected in a growth in steel consumption of 6.4 %, in spite of a decrease in the construction sector output. This increased demand mainly in flat products and tubes was primarily met by imports, which grew by 12.5 %. The share of imports in domestic consumption continued to increase and rose to 44.8 %, reflecting the fact that the market requirements especially in flat products are still not being met by domestic production. The increase of production was directed essentially to exports (long products) that increased 22 %.

The boom in the global steel market and the growing world prices are reflected in the developments of Polish steel industry, with an increase in the average price of finished products in the domestic market of 49.3 % and in that of exports of 57.9 %.

The upward trend in consumption is expected to continue in 2005 but the increase rate will be lower than last year. A slightly decreasing price trend is expected for 2005, the peak year seems to have been 2004.

3.3. Monitoring of state aid to the steel sector in Poland

Accession Treaty provisions

The Protocol sets the maximum amount of state aid which may be granted up to 31 December 2003 at PLN 3,387 millions (€ 727 million[10]). The National Restructuring Programme identifies the maximum state aid allowed for each of the steel companies.

Assessment of monitoring findings

According to the information at the Commission's disposal, Poland granted a total amount of PLN 2,750 million (€ 590 million) of restructuring aid in the period 1997-2003 (of which PLN 2,100 million (€ 450 million) were granted in 2003), which is below the maximum ceiling set up in the Protocol. According to the Protocol no more state aid could be granted to the Polish steel sector after 31 December 2003.

[10] PLN/Euro Exchange rate 4.6595 (average December 2003)

According to the information available to the Commission, to date this condition has essentially been fulfilled. However, as regards the operation of Huta Buczek, Poland is currently clarifying some remaining inconsistencies.

The Commission opened a formal procedure[11] under Article 88 (2) EC-Treaty on 19 May 2004, regarding restructuring aid to Huta Częstochowa, a steel producer not listed in Annex 1 of the Protocol N° 8 in order to clarify whether the restructuring of the company involves financial measures of the State. On 5 July 2005 the Commission has taken a decision which acknowledges that the company was in 2005 essentially restructured without state aid. Nevertheless Poland was requested to recover from the company an amount of about € 4 million of restructuring aid granted from 1997 to 2002.

3.4. Monitoring of the key restructuring benchmarks in the Polish steel sector

3.4.1. Capacity reduction

Accession Treaty provisions

The Accession Treaty specifies that the net capacity reduction to be achieved by Poland for finished products during the period 1997-2006 shall be a minimum of 1,231,000 tonnes. This overall amount includes net capacity reduction of at least 715,000 tonnes in hot rolled products and 716,000 tonnes in cold rolled products, as wall as an increase of at most 200,000 tonnes of other finished products. Actual net capacity reductions to be achieved and the timeframe for doing so were established on the basis of Poland's final National Restructuring Programme and the Individual Business Plans under the Europe Agreement.

The reduction in production capacity must be carried out by physical destruction of facilities.

Closure of capacity envisaged for 2004 were the permanent closure of 30,000 tonnes in H. L.W and the discontinuation of production in relation to a capacity of 60,000 tonnes in Huta Bankowa.

Assessment of monitoring findings

It appears from the information at the Commission's disposal that the physical liquidation of the cold strip mill in HL.W (30,000 tonnes) that discontinued production in 2002 has taken place as scheduled in December 2004. Huta Bankowa stopped production of its Medium section mill (60,000 tonnes) in December 2004.

3.4.2. Productivity

Accession Treaty provisions

It is envisaged that "employment restructuring shall be implemented; levels of productivity comparable to those obtained by the EU steel industry shall be reached by 31 December 2006."

---

11 Case C20/04 ex NN 25/2004

Assessment of monitoring findings

The monitoring shows, as last year, that the total productivity rate in 2004 in the companies under analysis remains below forecast. The total productivity of the sector has been influenced by the delay in the privatisation process of Mittal Steel Poland. Now that the privatisation has been concluded the company is revising its spin-offs and employment strategy and this is expected to have a positive effect. In the cases of two beneficiary companies the productivity levels planned for 2006 have been already achieved. In others the delays identified last year are not compensated by this year.

However, if efforts are intensified the achievement of the productivity level planned for 2006 is still feasible for most of the companies, mainly as a result of the increased production level. However, the importance of the employment reduction strategies has to be underlined, not only in order to increase productivity but also as an element of the cost reduction strategy. Therefore companies should do further efforts to comply with the planned reductions.

The overall productivity level remains low compared to the EU average. Efforts need to be intensified mainly in terms of employment reduction in to order to comply with the Protocol requirements.

3.4.3. Cost reduction

Accession Treaty provisions

It is envisaged that the companies will implement a costs savings programme.

The Polish National Restructuring Programme envisages a total reduction in production costs during the period 2002-2006 of PLN 2,332 million (€ 500 million). Of this a reduction of PLN 433 million (€ 100 million) i.e. 18 % of total forecast reduction, was to be achieved in 2004.

The reduction of manufacturing costs should be achieved through various methods: modernisation of facilities, reductions in employment, reduction of material and energy costs, improvements in production management, as well as lowering of the cost of external services such as maintenance and transport.

Assessment of monitoring findings

The monitoring shows that in 2004 all companies together showed a significant increase in total costs as against the same period last year. The main cause of this increase in costs is the rise in world prices of raw materials. However, the cost increase has been more than compensated by the revenues growth. A positive factor compared to last year is an increased efficiency mainly as a result of better management practises, reflected in a decrease of the unit cost of all other cost components: remuneration, external services costs and energy consumption.

Although the increase of raw materials prices does not seem to constitute a risk to the profitability of most of the companies as a result of the good market environment and high prices, further efforts in relation to costs reduction are still needed. Some of the companies should still revise their strategy of externalising services, in order to achieve a positive effect on costs. Investments projects need in most cases to be accelerated in order to achieve the costs reduction expected to derive from increased efficiency in energy consumption and increased yield. Employment reduction should continue to be carried out as planned.

This is especially important in view of the mentioned increase in raw materials prices that is expected to continue. The cost reduction strategy should be intensified in other costs categories and strict control systems and on-going costs reduction programme should be in place to be able to face a possible stabilisation of prices.

3.4.4. Investments

Accession Treaty provisions

The Accession Treaty envisages a series of investment for the beneficiary companies that are specified in detail in the National Restructuring Programme. The total amount planned was PLN 2.8 billion. The investments planned for 2004 amounted to PLN 1.2 billion around 42 % of total amount.

Assessment of monitoring findings

The monitoring shows delays in the planned investments in almost all of the beneficiary companies. Investments carried out in 2004 are 3.7 % of the total amount envisaged in the National Restructuring Programme. From 2003, the investments carried out amount to only 4.8 % of the planned figure. In the case of MSP the delay in the privatisation has affected the investment calendar. The new investor has presented a proposal for modification of the industrial strategy and planned investments that the Commission is about to approve. In other companies the investments are delayed mainly due to the lack of finance.

The investments aimed at cost reduction, increased quality and increased yield and energy efficiency. It appears from the information at the Commission's disposal that the delays in investment will not put at risk the viability in the cases of some companies while in others viability could be affected it if there was a significant market downturn.

These delays add up to the ones identified last year. As stressed in Commission's monitoring report for 2003 the companies should benefit from their improved financial results as a result of good market situation to intensify their investment work in order to get back on schedule.

3.4.5. Viability

Accession Treaty provisions

The Accession Treaty envisages that "taking into account the special accounting rules applied by the Commission each benefiting company shall achieve a minimum of annual gross operating result of turnover (10 % for non-integrated steel undertakings and 13 % for integrated steel mills) and a minimum return of 1.5 % of turnover on own capital, no later than the 31 December 2006".

Assessment of monitoring findings

The main goal of the restructuring process and of the measures envisaged in the National Restructuring Programme is to achieve the viability of the beneficiary companies to enable them to operate under normal market conditions. The viability test developed by the Commission's services is a tool to measure the financial effects of the different restructuring measures planned in the companies' business plans. Viability indicators are to be considered in the appropriate timeframe. The assessment on the viability projections should take into account that the goals are not to be achieved in a single year, but companies are to achieve viability by the end of 2006.

So far, the monitoring shows on one hand that some of the measures envisaged to achieve the viability of the benefiting companies are finalised such as the debt restructuring through planned state aids or organisational changes, or are taking place such as the closure of inefficient capacities.

On the other hand, the beneficial market condition is reflected in a significant increase in sales, improved operational results and high levels of profits of most of the companies. This has had a positive effect on the companies' viability prospects, but is not enough in all cases to achieve viability by the end of 2006.

The monitoring shows delays in the restructuring, which are in some cases significant and could affect the future viability of the companies if there were to be a significant market slowdown. In other cases the financial situation of the companies raises concerns despite the exceptionally favourable market situation.

In order to achieve viability, the restructuring efforts for all companies should be intensified in the two remaining years, profiting for the good market situation and improved operational results and cash availability, in particularly in relation to investment, employment reduction and cost reduction strategies, in order to complete restructuring by the end of 2006 as planned.

3.5. Environmental protection

The Treaty of Accession specifies a transitional regime on the environmental 'acquis' for Poland and establishes a list of installations for which a derogation from compliance with IPPC directive has been granted. The companies listed, Huta Sendzimira (now a part of MSP), Huta Andrzej, Huta Częstochowa, Huta Batory, Huta Jedność and Huta Laźiska shall obtain an integrated permit until December 2010. The companies not listed shall obtain an integrated permit by May 2007.

Monitoring shows some achievements in the planned environment-related tasks. As a positive element it can be underlined that most of the companies have adopted an Environmental Management System based on ISO 14.000 series. The application procedure for an integrated permit is in process in most of the monitored entities.

Environment related investments should be accelerated. Compliance with the EU environmental 'acquis' will have to be realised within the given timeframe.

On the 8 March 2005 the European Commission approved the Polish national allocation plan for green house gas emissions. In comparison to the plan initially notified, the total allocation of allowances has been reduced by 16 %. The impact of this on the steel sector still needs to be evaluated.

4. KEY FIGURES ON STEEL SECTOR FOR THE CZECH REPUBLIC AND POLAND

Source: European Commission, International Iron and Steel Institute

Steel statistics for the Czech Republic

Production	(million tonnes)		
	2002	**2003**	**2004**
Crude Steel	**6.5**	**6.8**	**7.0**
Finished Steel Products	**6.0**	**6.3**	**6.4**
HR Flat Products	1.9	1.9	2.0
HR Long Products	3.4	3.6	3.6
Tubes	0.6	0.7	0.7

Demand	(million tonnes)		
Consumption	**2002**	**2003**	**2004**
Finished Steel Products	**4.2**	**4.4**	**5.1**
HR Flat Products	2.2	2.3	2.7
HR Long Products	1.1	1.2	1.3
Tubes	0.4	0.5	0.5
Other Products	0.5	0.5	0.6

Trade	(million tonnes)		
Imports	**2002**	**2003**	**2004**
Steel Products	**3.0**	**3.0**	**3.7**
Semi-Products	0.3	0.3	0.3
HR Flat Products	1.8	1.8	2.3
HR Long Products	0.7	0.7	0.8
Tubes	0.2	0.2	0.3
Exports	**2002**	**2003**	**2004**
Steel Products	**4.4**	**4.6**	**4.5**
Semi-Products	0.3	0.2	0.2
HR Flat Products	1.0	1.1	1.1
HR Long Products	2.6	2.8	2.7
Tubes	0.5	0.5	0.5

Steel statistics for Poland

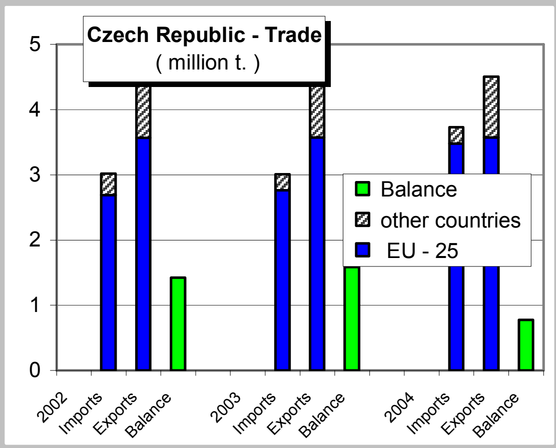
Production	(million tonnes)		
	2002	**2003**	**2004**
Crude Steel	**8.4**	**9.1**	**10.6**
Finished Steel Products	**6.3**	**6.6**	**7.4**
HR Flat Products	2.1	2.3	2.8
HR Long Products	4.1	4.5	4.7

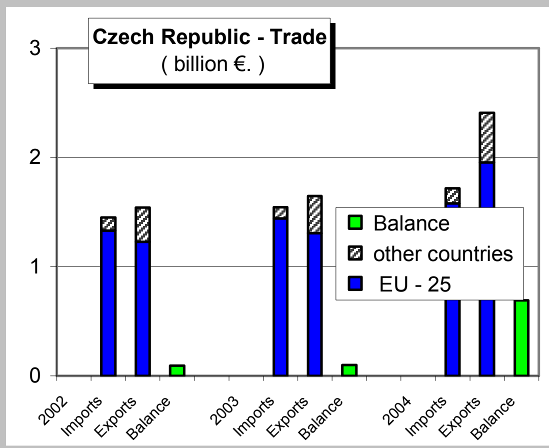
Demand	(million tonnes)		
Apparent Consumption	**2002**	**2003**	**2004**
Steel Products	**6.6**	**7.3**	**7.8**
HR Flat Products	3.0	3.6	4.2
HR Long Products	2.9	2.9	2.6
Tubes	0.7	0.8	0.9

Trade	(million tonnes)		
Imports	**2002**	**2003**	**2004**
Steel Products	**2.8**	**3.2**	**3.6**
Semi-Products	0.03	0.1	0.2
HR Flat Products	1.9	2.3	2.6
HR Long Products	0.5	0.4	0.4
Tubes	0.3	0.4	0.5
Exports	**2002**	**2003**	**2004**
Steel Products	**3.5**	**3.5**	**4.6**
Semi-Products	1.0	1.0	1.5
HR Flat Products	0.5	0.4	0.5
HR Long Products	1.8	2.0	2.5
Tubes	0.1	0.1	0.2

Steel trade statistics

Czech Republic





Poland