

# THE STEEL CRISIS IN THE EUROPEAN COMMUNITY

SWANSEA 19 SEPTEMBER 1980

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(by Mr. VREDELING, Vice President of  
the European Commission)

## Introduction

In 1974 crude steel production in the European Community was 155.5 million tons. The workforce was 792.000. In 1979 crude steel production was only 140 million tons and the workforce was down to 680.000. As you all know, the outlook for production is poor in 1980 and the labour force will be cut back still further.

This is a very alarming situation. We have to find an approach that will improve this situation and above all mitigate the hardships which workers will suffer. I must admit in advance that I have no tailor-made solution available. However, I greatly appreciate your kind invitation which gives me an opportunity to discuss the matter with you in an effort to take a step forward.

## Some facts and figures

First I want to say something about the economic circumstances since 1973 and especially steel trends.

After rapid growth in the volume of industrial production in the Community in the period 1958-1967, averaging 4.8% a year, growth in the years 1968-1973 was even higher at almost 6% a year.

In 1974 growth in industrial production slowed down to 0.6% and in 1975, for the first time since 1958 when the Community started, there was a decline of no less than 6.6% in industrial production. After picking up in 1976, results in the following years were also quite poor. In the six-year period from 1974 to 1979 industrial production rose at an average of 1.8% a year in the Community countries.

It is evident that there is a strong relationship between industrial production and steel consumption in the Community, but this relationship is not linear. Steel consumption has risen more slowly than industrial production in the recent past.

Two factors are of importance for the level of production in the Community: consumption in the Community and foreign trade. Both have declined since 1974. Domestic consumption, including changes in stocks, has never regained the 1974 level. The level of domestic consumption in 1979 was still 7% lower than in 1974. In 1974 the foreign trade surplus was 26.6 million tons but in the best years since then, 1978 and '79, the surplus was around 21 million tons. In the UK domestic consumption dropped by 17% in those years but net exports increased somewhat.

Although for the Community as a whole the year 1979 was the best year for production since 1974, it should be remembered that even the 1979 production level was still 10% below the 1974 figure and, as is well known, the outlook for 1980 and for 1981 for both domestic consumption and net exports is poor. Therefore the production level is falling again and more losses can be expected in the steel industry.

I have given you some facts as a background for our discussion today. Although it is my colleague Mr. Davignon who is mainly responsible for industrial policy while I am responsible for social affairs and employment, we cannot draw a definite line between these fields.

It is inconceivable to discuss industrial restructuring without taking into account the consequences for the workers involved.

On the other hand, proposals to improve the social situation of workers in the case of redundancies have to be considered in the light of the economic possibilities. Therefore the Commission has always linked restructuring programmes with social measures. I will come back to this later.

### Employment

The declining production in the iron and steel industry has affected employment as you well know. In 1974 on average 792.000 people were employed in this sector. In 1979 the workforce was reduced by 112.000 to 680.000, a reduction of 14% for the Community as a whole. The biggest reductions of 23% and 26% took place in Belgium and Luxembourg. In the four larger Member States employment decreased by 20% in France, 18% in the United Kingdom and 12% in Germany, but in Italy there was an increase of 4% in jobs in those years.

This general tendency to cut back the labour force continued in 1980, provisional figures for the first seven months indicating a further loss of 30.000 jobs, mainly in the United Kingdom. Of course I have no need to tell you this. Here, in Wales, you are well aware of the problem for you are living in one of the hardest hit areas when I think of the thousands of workers involved in Port Talbot, Llanwern, Shotton. And therefore it is no accident that you invited me to speak here.

This loss of employment in the Community is not surprising. If we compare the production and employment figures for 1974 and 1979 we see that crude steel production is down by 10% and jobs by 14%. This means that the increase in labour production per year was less than 1%. We have long known that our labour productivity in the steel sector in general is too low in comparison with our main competitors and therefore labour productivity must improve at a much faster rate than the 1% mentioned. This means very simply that if we cannot increase our production and find markets for our output the labour force will have to be further reduced.

#### The Commission's restructuring policy

The Commission policy can be described in general as an attempt to improve productivity and profitability by supporting the restructuring of the iron and steel industry.

The Commission has taken measures to ensure the orderly development of the Community market. As early as the end of 1975, the Commission decided to introduce import controls and started a study on compulsory minimum prices.

In the following years the Commission continued to apply and extend measures taken in 1976. These measures include both voluntary undertakings by firms to meet delivery objectives for the internal market (for certain products) and the introduction of compulsory minimum prices for concrete reinforcing bars, merchant bars and hot-rolled wide strip, and guidance prices for rolled products.

The Commission also introduced base prices at frontiers for semi-finished products and for other steel products.

In 1978 the Commission concluded arrangements on trade in ECSC iron and steel products with the Community's 15 (in 1979 - 17) major steel suppliers. The aim of the arrangements was to establish a sufficiently strong price discipline to prevent disruption of the Community market and thus to ensure the preservation of traditional trade patterns. With regard to price discipline, the arrangements contain rules based on intra-Community delivered prices, which in turn are calculated from the price rules in the Coal and Steel Treaty.

In the course of 1980, it appeared difficult to maintain the compulsory minimum prices and the system was relaxed somewhat and as you know is under discussion now.

#### Social aspects

As stated before, the economic and social aspects of the Commission approach cannot be separated. Against that background the Commission set out its views on social matters in 1978. The Coal and Steel Consultative Committee twice issued an almost unanimous opinion on this subject (September 1978 and March 1979) in line with the Commission's view. The European Parliament adopted a Resolution on the same subject at its session of February 1979.

In May 1979 the Commission presented a Communication to the Council. This was a draft Commission decision relating to the creation of special temporary allowances to help workers in the iron and steel industry, in the framework of the Community restructuring plan.

The Commission stated that the restructuring programmes decided upon or being elaborated in most iron and steel undertakings in the Community would inevitably lead to a decrease in the workforce in the iron and steel industry. In the Commission's opinion, the consequence of the structural crisis in the iron and steel industry in terms of lost jobs in regions where this industry was the mainstay of economic activity calls for the implementation of exceptional measures in favour of workers who become redundant as a result of the restructuring programme. In the framework of the European <sup>Steel Community</sup> Coal and some measures are already possible. Under Article 56 (2)(b) of the Treaty the - let us call them - traditional aids will continue to be fully effective'. These aids take the form of tideover allowances, vocational retraining costs, travel and removal grants for workers taking up new jobs. Further aid is given in the form of a wage supplement for workers who have found a new job in which the wage is lower than that earned in their previous job. Finally, there is aid in the form of grants to undertakings to cover the payments of workers who have been temporarily laid off while the undertaking is changing to a different activity.

Since 1973, the Commission has been contributing to the financing of early pensions for older workers in the form of tideover allowances within the limits laid down, a scheme of which more and more use is being made.

The "anti-crisis units" or "employment pools" are a modern variation on traditional measures. They consist of "pools" of workers who lose their jobs as a result of restructuring in the iron and steel industry. These "pools" try to obtain work for such workers for example they may be given special tasks in the public interest. Reemployment can also be facilitated through periods of vocational

retraining. If the workers are employed in a different job at a lower salary, a wage supplement can be granted to them.

### New measures

But the Commission was of the opinion that these traditional measures were not enough in the present situation. Therefore it proposed special measures in favour of workers in iron and steel firms and iron-ore mines in the Community, whose posts are directly or indirectly abolished or threatened in consequence of a restructuring plan adopted in conformity with the "General Objectives for Steel."

The following measures were proposed :

- allowances for early retirement
- allowances for improving the work cycle (including short-time working and an extra shift)
- allowances for earnings compensation in the case of reduction in overtime.

This did not mean that these measures had to be applied in all Member States, The Commission's intention was to define a whole set of measures which would be eligible for financial help from the ECSC. The question of which specific measures would apply to each country would be left for bilateral conventions to be agreed upon with each country - the Member States's agreement necessarily resulting from its decision to co-finance these measures.

The ECSC Consultative Committee on which producers, workers and consumer organisations are represented, was divided over the proposed special measures and in order to get maximum support the Commission changed its proposal. The second draft stated that these measures should take the form of :

- allowances for early retirement
- other allowances for adjusting the conditions and duration of work.

A new paragraph was added which stated :

"The allowances shall be granted on condition that the social partners' independence of decision-making is not affected and that the adjustments have a positive effect on employment without immediately or subsequently adversely affecting the competitiveness of undertakings".

The proposal for early retirement means that an allowance is granted to workers who cease their activity but are not yet entitled to the legal retirement pension, when such workers free a post which is taken by a worker threatened with dismissal as a result of restructuring or when their early retirement is likely to facilitate the improvement in productivity required by a general restructuring plan.

The allowance for early retirement can be obtained from a certain age, which may differ one Member State to another but cannot be less than 55. This age may be lowered for workers in particularly arduous jobs, for handicapped workers and for workers who have been engaged in shift work for at least in ten years.



The other allowance, for the adjustment of the conditions and duration of work, will be granted to :

- workers whose working hours are reduced to allow redundancies caused by partial or complete closure of an undertaking to be spread over a period of time,
- undertakings which adjust the cycle of work on behalf of workers falling under these rules,
- workers affected by a reduction in overtime if their incomes are below the minimum corresponding to the average wage of an unskilled worker.

#### Some considerations

After this factual description of our proposals and the changes in them, let us analyse some ~~more~~<sup>aspects</sup> more closely. Most of you know that we published our revised draft 20 July 1979, which is already 14 months ago, and we have not obtained any results so far. This calls for some consideration. First, why did the Commission change its proposals ?

For the Commission it was important to obtain the maximum support of the ECSC Consultative Committee. In our original proposal three points were mentioned. Allowances for early retirement was the first. This was accepted by everyone involved and was therefore maintained in our second draft. The second measure proposed was : "allowances for improving the work cycle (including short time working and an extra shift)". The employers' organisations found it very difficult to accept this proposal. Mention of an extra shift was completely unacceptable to them. They were afraid that this would increase production costs and therefore reduce

the international competitiveness of the European Steel industry. This could not be a temporary measure and might have an influence on other sectors.

Although the Commission does not agree with this reasoning, especially as the introduction of an extra shift may take a number of forms and can be spread over several years, it nevertheless decided to change the second and third proposals to avoid mentioning the extra shift. The wording was widened : "other allowances for adjusting the conditions and duration of work". And it was stipulated that the measures should not reduce the competitiveness of undertakings.

I should like to take this opportunity to say something of the recent requests by France and the United Kingdom under Article 56 of the ECSC Treaty. France is asking for 300 million EUA or £180 million and the UK for an amount of possibly 140 million EUA or £85 million. This total of £265 million is very large in comparison with the whole Coal and Steel Budget for social measures which was £40 million for 1980. This means that the application by the UK and France total 6 1/2 times the whole 1980 budget of the European Coal and Steel Community.

According to the new application no less than 22.900 workers in France and 35.000 workers in the UK might receive aid from these funds. The help given to these workers can in some cases last for up to 10 years. Up to now support under Article 56 has been given for a maximum period of 3 years, but in the present disastrous situation we should not automatically adhere to earlier practices but take a fresh look at what can reasonably be expected from the European Community. This might justify aid for more than 3 years which would also mean that the expenditure was spread over more than 3 years. One problem with the UK request is that a large proportion, 120 million, is for severance payments to BSC workers. These severance payments take the form of a lump sum, related to the earnings of the individual worker concerned and his length of service. I have my doubts about the social acceptability of such "departure premiums".

The worker is bought off and afterwards he is left on his own. If the money is used to set up a business, to start a new job, etc., I have less my objection. I am afraid, however, that in most cases the amount of money seems attractive but later on the disadvantages become more evident. I prefer a system which combines a smaller severance payment with incentives for vocational retraining and which encourages reintegration in other work.

On the other hand, if I am well informed, the social system for workers from the age of 55 is less generous in the UK than in the other Member States. As far as I have been able to ascertain the situation in the UK, I have the impression that many workers will gain no advantage from any contribution by the Coal and Steel Community's to their early retirement fund. If their early retirement benefit were increased than their social security benefit would reduced by the some amount. In that case it is understandable that workers choose severance payments. In most cases the indemnity paid under the Treaty of the European Coal and Steel Community is additional, especially if national social benefits are low. In analyzing the system of severance payments and early retirement we should take these factors into account and try to find the best way of improving the situation of the workers involved.

It is difficult for me to say more about these applications as we are still in the decisionmaking stage and it would be premature to take up a position now.

Progress

The Commission and both sides of industry have given their views. Recently the European Parliament received an excellent report by one of its members, Mr. Peters. In this report the European Parliament was advised to support the Commission proposals fully. I will not say any more on the report because Mr. Peters himself will speak at this Conference.

In any case it was of great importance that the European Parliament supported the Commission.

The support was not 100%, however, there was a difference of view between the Parliament and the Commission about the procedures needed to provide the necessary finance. I don't want to bother you with all the technicalities involved and will try to express it in simple terms.

The Commission wanted 100 million units of account over a three-year period of which 30 million in 1980. The Parliament decided to put it as a token entry in the 1980 budget pending a final decision by the Council. After this decision by the Parliament the Commission had no choice but to propose a token entry in the draft 1981 budget, which was presented a few weeks after European Parliament's decision on the 1980 budget.

Now the Council has to decide on the Commission proposals. I want to emphasize that it is not the Commission or the European Parliament that takes the final decision, but the Council of Ministers of the European Community, which means the national Governments in London, Paris, Bonn and the other capitals. The indications we have so far are not very

favourable; it seems that some of the Member States are reluctant to accept new special temporary allowances to help workers in the iron and steel industry. They seem to feel that enough can be done under the present ECSC rules. If more help is needed for these workers, Member States should provide it themselves. I think that such an approach is unacceptable in the present situation. It should be realized that the ECSC Treaty was drafted at a time very different from the present day. I do not share the opinion that enough can be done under Article 56 ECSC. This Article has acquired its own interpretation in the course of the years. Now we are confronted with a completely different situation from the sixties and early seventies and we should take other measures.

The new proposals proposed under Article 95 are designed to facilitate a more flexible social and employment policy - one which is exclusively focussed on those who are losing their jobs in connection with the Community restructuring plan. This is quite different from the possibilities under Article 56.

But I must admit that my main concern is not to decide which measures can be taken under article x or under article y but to ensure that the best measures are taken to help the workers and that European finance is made available for this aid. It was the task of the Commission to come up with clear proposals. We have done that. But this does not mean that we are not open to discussions. If the Council thinks that there are better ways of obtaining our objectives than we should discuss them. The objective is to ensure that appropriate measures are taken to help the workers involved. It is obvious that without European help national Governments are less generous and so therefore are the provisions for workers.

## Industrial policy

There is another very important argument. This is more or less a test case for the Community's whole industrial policy or let us say industrial approach. It should be clear that if the Community takes responsibility for restructuring in a certain sector then it automatically accepts responsibility for workers in that sector. To take steps to improve the situation of the undertakings while disregarding the effects on workers is not acceptable to the Commission.

It is true that the ECSC is a special case. The coal and steel companies have a special position in the Community and it is easier to take measures in those industries than in other sectors. But in that situation it is even more serious if the Community fails to take adequate social measures.

In discussing other sectors the question arises whether the Community should have its own industrial policy. Some consider that a good industrial policy is a policy which creates a good business climate, and that more intervention by the public sector will only make matters worse. The experienced businessman knows much better than the civil servant what is good for the company and where and how to invest.

On the other hand all Member State governments are supporting companies in difficulties, sometimes lame ducks. Many measures are being taken to protect undertakings and whole sectors. The

Community is frequently asked for measures to help certain sectors. It has taken sectoral measures to aid agriculture, fisheries, coal and steel, shipbuilding and textiles. It has also taken steps, planned action or closely monitored other industries such as footwear, building, wood and paper.

Therefore the Commission and the Community are already involved in numerous industrial problems. The industries mentioned above are in some cases sectors in difficulty. Support for such sectors means in many cases a protectionist policy or financial aid or a combination of the two. But if one accepts, as the Commission has, that industrial policy is more than a good business climate it cannot stop at supporting weak industries. As is the case in the steel sector even with an appropriate policy to diminish the bad developments, a reduction of the labour force is inevitable. An active industrial policy should be focussed on creating new work to replace the loss of jobs in weak sectors. Without such a policy there is a danger that a protectionist policy will become inevitable to save jobs in the short run but will worsen the position in the Community in the long run. The Dutch Nobel Prizewinner Professor Tinbergen wrote recently in Lloyds Bank Review :

"To-day's Western Governments as well as the European Community's Council of Ministers have yielded to lobbies of both trade unions and employer unions of industries which are unable to compete on the world market and have increased protective devices. Understandable though they may be, these policies must be rejected".

And he went on :

"Protection is a negative policy and what we need is a positive restructuring into the direction of activities where we have comparative advantages, meaning that we use our abundant resource - knowledge more intensively."

The Commission explained its view on this matter in a 1978 report "Some structural aspects of growth". Attention was given to growth and innovation, innovation through research, training and education, conditions of employment and mobility, etc. Sectors of importance for a growth strategy were also mentioned. These were data processing, electronics and aerospace as investment goods; energy and raw materials; and of specific importance for employment : infrastructure and construction and the tertiary sector.

In recent years the Commission and its staff have devoted much attention to these sectors. The Commission has prepared two reports on the technical aspects and on the employment effects of micro-electronics and has started discussions with both sides of industry and with Governments in the course of this year. The first steps have been taken and proposals are being discussed to prepare the Community for developments in these fields.

Last year at request of the Commission a Group of Experts produced a report on the changes in industrial structure in the European economies since the oil crisis of 1973. It had previously produced a report on earlier periods.



It compares activities with a very low skilled labour content and a high skilled labour intensity on the one hand and a low capital content and high capital content on the other hand. From the figures the importance to the Community of skilled labour intensive products is very clear and it is not difficult to draw the conclusion that workers in the Community should clearly concentrate on knowledge and skill, to maintain and improve the still strong position on world markets. This is in line with the remarks made by Prof. Tinbergen and with the Commission's approach.

The question is, will this provide enough employment? It certainly will not create enough employment in industry. But it should be remembered that it is not employment in industry that counts but total employment. In 1960 of the total civilian employment in the US 31% was in industry (manufacturing, mining and construction). In 1979 this percentage had decreased to 27 1/2 %. In the same period employment in transport and services increased from 39 to 49 % of total civilian employment.

Employment in transport and services was only 36 % of total employment in the Community in 1979. Taking the USA as an example there is much further scope for the development of the services sector in the Community.

Although of course I realize that the situations in the USA and in the Community are quite different and that comparisons are not always justified, it will help us in our future approach to know what has been happening in the USA and therefore what is possible in an industrial country.

In the whole period 1960-79 employment in the Community increased by only 4 million. In the same period employment in the USA increased by no less than 31 million. In the seventies the increase in jobs in the USA was 18 million, 12 million of them in the private tertiary sector.

Concluding remarks

I was asked to speak on the steel crisis. I could not avoid speaking about industrial policy for I believe that the steel crisis is not an isolated phenomenon. This does not mean that we should not make every possible effort to improve the situation in the steel industry and to safeguard the future of all the workers involved. Therefore I hope that the Council will in due course accept the Commission proposals and if it does I want to ask you for your full support.

I hope that I have not taken too much of your time but I thought it useful to explain to the people in South Wales, who are suffering so much from the steel crisis, some of our ideas on ways of tackling these problems.

SUMMARY OF MR. VREDELING'S SPEECH ABOUT  
"THE STEEL CRISIS IN THE EUROPEAN COMMUNITY "

Swansea, 19 September 1980.

Speaking at the international Conference on steel at University College, Swansea, Mr. Henk Vredeling, Vice-President of the European Commission, commented on the special allowances (see P(79)41), proposed by the Commission in May 1979 to help workers in the iron- and steel industry whose jobs are abolished or threatened by restructuring in conformity with Community steel-policy.

Mr. Vredeling said : "Now the Council has to decide on the Commission proposals...

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favourable; it seems that some of the Member States are reluctant to accept new special temporary allowances to help workers in the iron and steel industry. They seem to feel that enough can be done under the present ECSC rules. If more help is needed for these workers, Member States should provide it themselves. I think that such an approach is unacceptable in the present situation. It should be realized that the ECSC Treaty was drafted at a time very different from the present day. I do not share the opinion that enough can be done under Article 56 ECSC. This Article has acquired its own interpretation in the course of the years. Now we are confronted with a completely different situation from the sixties and early seventies and we should take other measures.

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Mr. Vredeling also commented on recent requests by France and the United Kingdom for "traditional aids" under Article 56 of the ECSC Treaty : "France is asking for 300 million EUA and the U.K. for an amount of possibly 140 million EUA. This total of 440 million EUA or £ 265 million is very large in comparison with the whole ECSC budget for social measures which was 67 million EUA for 1980. This means that the applications by the UK and France total 6 1/2 times the whole 1980 budget.

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