The European steel policy

European File

At the end of June 1982, with the approval of the Community's Council of Ministers, the European Commission decided to 'prolong' the system of monitoring and production quotas that it had introduced in the steel industry. The implementation of what most people know as the Davignon Plan, named after the Commission Vice-President responsible for industrial affairs, was therefore able to proceed. The aim of the plan is to assure the immediate and long-term survival of the European steel industry.

The position of the steel sector remains very precarious and there is widespread concern amongst the half a million workers still employed in the Community steel industry, or in related industries. [1]

During the post-war years, the steel industry saw an exceptional expansion, mirroring the general economic growth. Steel plays an important role in the manufacture of machinery and equipment, many consumer goods, in the building industry and in car-making and other transport sectors.

Before the onset of the crisis, between 1946 and 1974, world crude steel production multiplied 6-fold, increasing from 112 million to 709 million tonnes. The most dramatic expansion occurred in Japan: between 1950 and 1970 Japan's share of world production increased from 2.5% to 16%, while its exports grew 32-fold. Between 1960 and 1975 alone, Japanese production capacity increased 7-fold, compared with a doubling in the Community and no growth at all in the United States.

[1] This file updates and replaces No 6/79.

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Between 1970 and 1981, Japan's share of world production remained more or less stable around 15%, while that of the Community fell from 23% to 18% and the United States of America from 21% to 16%. Other competitors took up the slack: in ten years, the Eastern bloc countries increased their share from 26% to 29% and other countries — including new producers, the developing nations and newly-industrialized countries — from 14% to 23%. While remaining net importers, these latter countries are becoming increasingly self-sufficient. They enjoy lower wage bills, more modern plant, sometimes better access to raw materials and can sell their products more easily on an almost stagnant world market where increasing competition is forcing prices down.

Production overcapacity, resulting from investments made during the growth years, coupled with the general economic crisis have provoked a slowdown in demand for steel. It only increased by 0.7% at world level in 1980, compared with 1974. In the Community, demand actually fell by 15%. The result is that the European steel industry is only working at around 63% of its capacity, the US industry at 80% and the Japanese at 64%.

The impact of the world steel crisis in the Community has created:

- a drop in crude steel output, which fell by 20% between 1974 and 1981 (from 156 million to 125 million tonnes). Total Community production capacity is 200 million tonnes and the industry needs to produce and sell 170 million tonnes to be profitable;

- a slump in prices, which fell by 50% between 1974 and 1977, before being stabilized by Community measures;

- a sharp cutback in the number of jobs in the steel industry, from 792 000 to 549 000 between 1974 and 1981 (−31%). In addition, a good many employees have been put on short-time working;

- considerable financial losses. Problems of industrial productivity have been coupled with those created by overcapacity. In 1973 — a boom year — it took on average 8.3 working hours to produce 1 tonne of crude steel in the Community, compared with 5.9 hours in Japan. Even today, despite modernization programmes, Europe has too much outdated plant, which competes badly with new producers.

Why steel is a Community concern

The economic crisis affects all ten Community countries since each has its own steel industry, occupying a central role in the national economies of all countries, except Denmark and Ireland. The Community can and must play a leading role in finding a solution to the industry's problems:

- firstly, because that is its agreed role: the Treaty of Paris signed in 1951 established the European Coal and Steel Community (ECSC). Removed from the traditional rivalry of nations vying for European supremacy, strategic sectors like coal and steel, were brought under common control. The rapid expansion of the coal and steel trade within the Six – it increased by 129% over the first five years of the ECSC – contributed greatly to Europe's post-war economic recovery. The mechanisms introduced with the creation of the ECSC, and 30 years of experience in joint decision-making and cooperation should see the European steel industries through the current crisis;

☐ secondly, because the reorganization forced on the industry by current structural difficulties cannot be undertaken effectively if European countries act independently. All of them sell the majority of their steel production on the same market. Any forecasts or national plans which do not take into account the existence of the common market and the policies of the other partners will only make the crisis worse. No country can save its steel industry single-handed and reorganization will only be acceptable if the difficulties, costs and sacrifices are equitably shared.

Why Europeanize steel?

The European Coal and Steel Community is over 30 years old. For over three decades then steel has been European. It is now, however, facing an unprecedented crisis. Has the ECSC been any real use? To answer that question it is necessary to look at what would have happened if the ECSC had not been created.

☐ Customs barriers between European countries would not have been removed and national steel industries would not be able to export over 20% of their output to other Community countries, as they have done in recent years. The steel industry would not have been able to make the sort of contribution that it has made towards the expansion of European economies and standards of living and enabling Europe to sustain an average economic growth rate of around 5% per annum over the past 20 years. The narrowness of national markets would have acted as a severe obstacle to specialization and increased productivity. European countries would have been faced with an impossible alternative: either to restrict the formation of the required industrial groupings and force ill-equipped firms into cut-throat competition with each other, or alternatively, to encourage the creation of genuine national monopolies, thereby foregoing the benefits that fair and balanced competition can offer to consumers and to economic growth.

☐ Europe, the USA and the Soviet Union cannot hope to hold on to their industrial monopoly indefinitely. If the ECSC had not existed, the emergence of new producers would not have been delayed by a single day. And in the steel crisis, the competitive threat from Japan and certain East European and Third World countries has been as important a factor as the economic recession. How would competing and single-handed European countries have reacted to this new competition? Doubtless they would have tried to protect their industries by raising tariff barriers. But protectionism is more often than not met with counter-protectionism. It is surely far more to everyone's advantage that the Community plays its full role in international relations

– its overseas trade represents a good fifth of total world trade – to try to bring new discipline to the steel market.

The existence of the ECSC has therefore led to a better development of trade both between European countries and with the rest of the world. Moreover, since the Treaty opens the door to investment, financial aid and even, where required, action to control quantities produced and prices, it enables the European Commission to conduct a policy aimed at ensuring the long-term future of the European steel industry.

Community action

What policy? Europe cannot give up steel production, since this would be to do away with one of the essential links in the production chain for a whole host of products, creating extra dependence at the cost of half a million jobs. Nor can Europe opt for a policy that is expensive or subsidized over a long period of time. In one way or another, by the impact on prices or taxation, the cost of such a policy would have to be borne by other sectors of the economy, whose capacity for expansion would therefore be hamstrung... unless they managed without steel, which would not exactly help Europe's steel industry. The international consequences would be equally unbearable: direct subsidies would not be accepted by the Community's trading partners; excessively high prices could only be protected by closing the Community's frontiers to steel imports. To do either, would be to embark upon a trade war which would work against the Community's short and long-term interests. Europe still exports more steel than it imports, and in a more general fashion, its relative prosperity depends on trade with the rest of the world, imports of raw materials and its exports of industrial goods.

Rather than lead the European steel industry into a blind alley, the European Commission has chosen to attack the root of the problem. It has opted for a programme of modernization, restructuring and reduction of capacity. In time this policy will make the steel industry more competitive, allow the industries which rely on it to purchase supplies at prices comparable to those charged to their more efficient competitors and thereby assure the maximum number of viable jobs. This effort to restore order to the industry naturally runs counter to some national policies involving direct subsidies, which create distortions of competition between Member States and companies and which discourage the return to competitiveness. It cannot be left to market forces alone. There must be solidarity in deciding which plant is to be maintained and modernized and in assessing the regional and social consequences. Reorganization, reconversion and the redeployment of workers must all be looked at in parallel. The unity of the common market must be maintained as well as the competitiveness of companies in this market. Contacts with external markets and research and technological innovation must be stepped up.

The Community's steel policy is a coherent set of measures, some aimed at restoring financial viability to steel companies, others at helping the industry to adapt to meet new market requirements by 1985. Conversion of steel regions to other industries and retraining of workers must also be assured.

- ☐ *Re-establishing financial viability.* The Commission's main aim is to stem the flood of cash losses hitting steel firms as a result of the dire market situation.

  - When demand is low, the fall in prices is accentuated by the fact that companies with surplus production capacity tend to produce more steel to meet fixed costs. For some products, like heavy plates and sections the Commission managed to obtain individual voluntary quotas. For other products, the Commission, with full backing from the Council of Ministers, imposed compulsory restrictions on production and deliveries. This quota system, introduced in 1980 in the context of a manifest crisis, has been rigidly controlled. The system has been prolonged for a year and extended to include wire rods, thus covering about 80% of Community steel production.

  - From May 1977 to July 1980, compulsory minimum prices or guide prices were in force, according to the sensitivity of the products, to define what price increases were necessary. As a result, with the compulsory and voluntary production curbs, the industry reverted to the strict application of Article 60 of the ECSC Treaty, which outlaws unfair and discriminatory pricing or marketing conditions. In July 1981, these rules were extended to steel distribution, sales and stocking companies and others for a limited period of three years.

  - The sacrifices and gains made by the European industry as a result of this discipline must not be jeopardized by uncontrolled imports from the rest of the world. A system of monitoring of imports was therefore set up in 1977. Since 1978, the Community has negotiated agreements with its principal suppliers (14 third countries in 1981), in a bid to maintain traditional trade flows while taking account of the situation on the European market. These countries have undertaken to keep price levels close to those in the Community. In return, the Community has agreed not to open anti-dumping procedures against these countries, so long as the terms of the agreement are respected. For other suppliers, the monitoring system has been coupled with publication of reference prices for imports, based on the production costs of the most efficient factories. The system facilitates control of imports and the rapid introduction of antidumping measures when import prices are lower than the reference price. Under the system, Community steel imports have been stabilized at around 11 million tonnes a year, while European exports stand at some 30 million tonnes.

The result of these measures is that a balance, albeit still artificial has been established between supply and demand for steel and the unity of the market and traditional trade flows maintained. Having brushed with catastrophe, the Community steel industry has been able to rely on higher prices (the average increase was of the order of 40% in the first quarter of 1982 compared with the first quarter of 1981) which has given the industry a breathing space within which to prepare for the future. But major problems persist. The market outlook is far from encouraging and European exports to the United States of America have been reduced by the effects of unilateral customs actions, which the Community has attempted to limit by negotiating a trading arrangement. In addition, most European steel firms have insufficient financial means to invest in restructuring. Finally, there can be no question of encouraging an uninterrupted growth in steel prices: once restructuring is complete and competitiveness re-established, free competition should be allowed to resume, so as to guarantee the continued adaptation of steel companies and to safeguard the interests of the consumer industries which must also remain competitive with outside rivals.

☐ *Encouraging restructuring.* Price control measures must not therefore be used to avoid much-needed restructuring in the industry. On the contrary, they should encourage it. As there is little hope of seeing a substantial pick-up in demand for steel, getting back to genuine financial stability and improving competitiveness and efficiency imply a better balance between demand and production capacity and an increase in productivity – and therefore modernization of plant and phasing out of outdated equipment.

- In this field, the European Commission has no direct powers of decision-making or even to propose solutions. But it can and must ensure that planned investments are coherent and that their financing conforms to the broad objectives laid down by the Commission for the steel industry and European competition rules. To this end, planned investments must be notified to the Commission, which will study their compatibility with its objectives of competitiveness and financial stability. Public aid to companies will only be permitted if the beneficiaries are carrying out a coherent and specific restructuring programme. The aim of the programme must be to return the company to competitiveness and financial viability in normal market conditions, reduce its overall production capacity and not envisage increases in capacity for products for which the market is not growing. In addition, the amount and intensity of aid must be progressively reduced (no aid can be paid out after 1985), should not create distortions of competition nor alter trade patterns in such a way as to harm the Community interest. The Commission feels that these strict conditions governing aid take the steam out of US complaints about European steel exports. All national aid projects should have been notified to the Commission before 30 September 1982 and the final decisions on aid will be taken before 1 July 1983. This period will be decisive for the restructuring of the Community steel industry. The decisions that have to be taken will be hard – they will mean fresh cuts in capacity – and they will therefore necessitate a firm hand to continue a plan that still has to go a good deal beyond that which has been achieved and planned up until now.

- The Community is making a specific financial contribution towards restructuring in the steel industry. Since the beginning of the crisis, between 1975 and 1981, ECSC loans to aid investment in the industry (chiefly through interest rebates) totalled 3 098 million ECU,[1] European Investment Bank loans 349 million ECU, non-repayable aid from the European Regional Development Fund 21 million ECU and aid for scientific research in the steel industry 120 million ECU.

[1] 1 ECU (European currency unit) = about £ 0.55, Ir. £ 0.69 or US $ 0.94 (at exchange rates current on 16 September 1982).

□ *Social measures.* Restructuring in the steel industry poses very serious problems, since it leads to heavy job losses. The Community is making a direct contribution to offsetting social costs:

- through redeployment loans to help former ECSC workers find new jobs. Between 1975 and 1981, more than 1 200 million ECU was granted (with interest rebates totalling 126 million ECU) to create 63 000 new jobs;

- through non-reimbursable social aid. 270 million ECU was spent on retraining 158 000 former steel workers between 1975 and 1981 and 117 million has been set aside for 1982. Since 1981, a contribution to the cost of early retirement and part-time working schemes has also been paid. Between now and 1984, 212 million ECU will be made available to assist some 120 000 people.

The general economic situation and concentration of the steel industry in particular regions obviously complicates the search for solutions. The Commission has suggested implementing public investment programmes in a series of fields to stimulate economic recovery in general by creating new jobs in the private sector, particularly in steel production.

△

The European Commission has taken increasingly greater and more specific responsibility to stem the deterioration in the steel market and help the industry adapt. The recovery of the steel industry will enable all other Community industries to obtain supplies at prices comparable with their major competitors. Community action in the steel sector forms part of an overall industrial strategy. For the Commission, the steel industry remains a crucial sector, which must recover its stability and play its role as a key link in a changing industrial chain ■

The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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