

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## STEEL CRISIS MEASURES FOR THE SECOND HALF OF 1980

(Communication from the Commission)

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1. Situation in the European steel industry

The effect of the steel industry crisis measures was slowed down in the first half year of 1980 by a certain slackening in home demand in the Community and by a significant reduction in exports particularly to the United States, Iran and other third countries, either because demand for steel in those countries was in decline or because other exporters had stepped up their efforts there.

The impact of this weakening in overall demand on the level of prices was exacerbated by the fact that some steel undertakings exceeded their delivery programmes by significant quantities. This prompted the Commission to take vigorous action by introducing greater stringency and effectiveness in the drawing-up and implementation of forward programmes.

This flagging trend in steel prices made itself felt in both the flat product sector and the long product sector.

In addition the drop in scrap prices and the increase in iron ore prices acted as a combined force in once again placing mini-steel works at an advantage at the expense of integrated steel works. From the beginning of the year, these works increased their deliveries to the Community market to counterbalance the reduction in their exports to the world market.

The reduction in steel prices is clearly affecting the financial situation of the undertakings, which are in any case experiencing a significant increase in production costs.

This new deterioration in the financial situation has been slowed down by the effects of reorganization measures undertaken by a certain number of steel companies, particularly in long products. Salient features in this sector are a significant capacity reduction of 2.3 million tonnes from the 1976 level and concentration in the most modern plants.

In the flat products sector, reorganisation efforts have been concerned mainly with lowering production costs at the pig iron and steelmaking stages, in particular by increased use of continuous casting which in 1980 attained a total capacity of 66 million tonnes, compared with 55 million tonnes in 1978. On the other hand, rationalization has not been entirely in phase with the market movement at the rolling mill stage, where over-capacities are in evidence. The reorganization effort therefore needs to be sustained.

The economic prospects for the second half of 1980 point to a certain reduction in steel demand, particularly in the motor vehicle and construction industries. However, demand in the capital goods industries will remain fairly firm in several of the Community countries. Consequently, crude steel production, which was still fairly high during the first half of 1980, could decline in the second half of the year. The level for the year as a whole should be approximately 135 million tonnes, somewhat down on the level of 140 million tonnes for 1979.

## 2. Implementation of the crisis measures

The minimum prices for concrete reinforcing bars and merchant bars were suspended for half a year at the beginning of 1980. Market prices are currently above the suspended minimum price level in some areas of the Community. In other areas, in the northern part of the Community, they are substantially higher. It may be noted that a considerable proportion of the integrated works have taken measures to reorganise which will put them in a better position to hold their own than in 1977 and that their production costs are less unfavourable than at that time compared with those of electric steelworks.

Under these conditions, the Commission considers that the arrangements adopted in the first half of the year for suspending minimum prices should be kept in force unchanged until 31 December 1980.

It also considers that the market in concrete reinforcing bars and merchant bars should be monitored carefully and will therefore keep market prices under constant review.

With regard to coils, taking into account the situation analysed in Section 1 of this paper and the distortions which have occurred inside the Community as a result of exchange fluctuations (particularly as far as sterling is concerned) since the end of 1979 between the minimum price levels expressed in the different national currencies, the following proposals are put forward:

- to suspend for the second half of the year the application of minimum prices for coils in accordance with a formula similar to that already applied for concrete reinforcing bars and merchant bars, namely:
  - that the Commission Decision 3060/79/ECSC of 27 December 1979, fixing minimum prices for hot rolled wide strip and imposing certain obligations on steel enterprises and steel merchants ceases to apply in its entirety;
  - that a continuous study of the market price in coils is simultaneously initiated so as to make it possible to determine, at any time and at short notice, whether reintroduction of minimum prices might become necessary;
  - that consultation of the Council and the Consultative Committee, which is officially required before a minimum price for coils can be reintroduced at its original level, is considered actually to have taken place for the second half of 1980.

- If the Decision to suspend is not taken, the Commission must necessarily undertake an adjustment of the minimum prices in national currencies based on movements recorded in exchange rates, and this can clearly affect market behaviour.

If the economic and social situation so requires, in other words, if one or several of the following criteria are fulfilled before 31 December 1980:

- market prices falling below the current minimum prices,
- rates of utilisation of capacity falling below the 1977 rates,
- imminent risk of massive job losses in a vital part of the iron and steel industry,
- market prices at levels endangering the viability of enterprises of average competitiveness.

the Commission will inform the Council and the Consultative Committee and, possibly, decide to reintroduce one or more minimum prices a week later.

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x                      x

In order to take into account trends in costs at world level, the Commission will propose a review of basic prices on the basis of a study, the results of which will be available at the beginning of September.

With regard to restructuring, which remains the prime objective of the crisis measures, the Commission will continue its efforts to ensure that this proceeds under satisfactory conditions. It will present to the Council, for its end-of-year discussions, a detailed report which will tie in with the implementation of the General Objectives.

Finally, in the social field, the Commission will, in spite of the difficulties encountered with its proposals since 1978, continue its action to extend the range of assistance to workers in the steel industry, in order to soften the impact on employment of rationalization in production plant.