

COMMISSION OF THE EUROPEAN COMMUNITIES

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S T E E L

Report on the state of the steel industry

Request for the Council's assent to the introduction of a system of production quotas for coils and derivative products

(Communication from the Commission to the Council)

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INTRODUCTION

Since it had been established by the Commission that there was a manifest crisis in the European steel industry, the Council gave its assent on 30th October last year, in accordance with Article 58 of the ESCS Treaty, to the introduction of a system of production quotas for the Community steel industry.

This decision was prompted by :

- a) the severe and widespread slump in demand on the Community and world markets;
- b) the serious decline in the rate of utilization of production capacities to close to 70 % in the first quarter of last year and to 58 % by the end of last summer;
- c) a drop of nearly 13 % in prices between January and September of last year;
- d) the producers' inability to enter into a voluntary commitment vis-à-vis the Commission to reduce their production of rolled finished and crude steel products.

Since the machinery which had been set up in 1977 under Article 57 of the ECSC Treaty was no longer effective, there was no other choice but to make use of the measures provided for by Article 58 of the Treaty. By taking this action, the Council and Commission sought to achieve the following objectives :

- a) to maintain the unity of the European steel industry and thus, Community solidarity;
- b) to create the right economic climate for the restructuring of this industry, which is essential;
- c) to re-establish a more balanced relationship between supply and demand so that market prices can return to the level of American and Japanese prices;
- d) to give producers time to return to voluntary arrangements in keeping with the Treaty.

I. ECONOMIC AND SOCIAL SITUATION IN THE EUROPEAN STEEL INDUSTRY

a) Steel market analysis and outlook

There has been no change in the situation on the steel market since the second half of last year (a drop in crude steel production of almost 20 % over the year) although not all products have been affected to the same extent. In the light of the results of surveys carried out with steel firms and their associations, the Commission has had to substantially increase the abatement rate for the calculation of quotas for the first and second quarters of this year. The very low level of production in this period is partly due to the large stocks built up by steel users before the system of production quotas was introduced.

The Commission's monthly economic survey and production forecasts in the main steel-consuming sectors continue to point to a downward trend. The bottom of the recession should however, be reached towards the middle of this year.

- The production of coils and coil-derived products (mainly cold-rolled thin sheets) has been particularly hit by the slowing-down in production in the car industry. Another factor is the lack of discipline among producers in this sector which has resulted in massive stockpiling prompted by the very low prices which were offered until the end of September;
- severe reductions were recorded throughout last year in heavy plate production. The difficulties in the shipbuilding industry were to some extent offset by the relatively less severe slump in some consumer sectors (metal working industry, mechanical engineering and offshore platform industry) but production has tended to stabilize at an unsatisfactory level;
- there has been a slight upturn in the production of concrete reinforcing rods and merchant bars mainly as a result of seasonal factors in the building industry. There has, however, not yet been any recovery in wire rod production or in the wire-drawing industry and ironmongery sectors.

b) Financial position of steel firms

Rates of utilization have generally been low and in coil and thin-plate mills there was a sharp drop in capacity utilization. This trend has had adverse repercussions on prices despite some minor increases (except for coils) and consequently, by the end of the first quarter, there was no improvement in the financial position of the undertakings. Even the most productive producers cannot cover their production costs with present prices. A reasonable increase in prices is a vital objective.

c) Effects on employment

The deterioration in firms' financial position is affecting restructuring programmes and the industry's future. This makes it impossible to ensure an orderly implementation of the long-term strategy recommended by the Council at its meeting on 26 March and puts jobs seriously at risk.

The number of jobs affected by reductions in working hours and the number of working hours lost are much higher in the first half of last year. In some cases they have even doubled.

II. MEASURES WITH REGARD TO PRICING POLICY

To re-establish order and price discipline in the Community steel market, it is essential to adjust the list prices, so that they correspond to the realities of the market. This must be done by the producers themselves, and be done soon. The producers have been told that, from 1st July 1981, the rules of Article 60 must be observed strictly. To ensure this, the Commission will step up its inspections and, should the rules be broken, will apply the penalties laid down in Article 64.

The conditions of sale published or notified by the producers constitute the legal basis of these measures - whence the need for the producers to adjust their price lists to market conditions and to make the conditions of sale more transparent in order to avoid distortions.

Order and price discipline can be established in the Community steel market only if stockholders too are subject to similar obligations. In this respect, a distinction should be made between stockholders tied to a steel-producing firm and independent dealers. The Commission plans to take the following measures with regard to stockholders:

- Tied stockholders

It has to be admitted that, in some of their activities, tied stockholders fulfil the same function as sales organizations, and should therefore be treated as such. The Commission will accordingly supplement Decision N° 30/53, Article 1 of which defines sales organizations, by adding a sentence to the effect that distribution undertakings or organizations controlled directly or indirectly by a producer within the meaning of Decision 24/54 shall be regarded as sales organizations when they are involved in direct sales on behalf of the producer in question. Transactions caught by this provision shall consequently be subject to the rules laid down in Article 60 of the ECSC Treaty. The producer is to be responsible for the behaviour of the stockholder which he controls, and the latter shall be subject to inspection by officials or authorized agents of the Commission.

- Independent stockholders

The Commission has no direct means of influencing independent stockholders or those activities of tied stockholders involving steel manufacturers other than the controlling producer. It is essential, however, that this stockholding sector, which is by far the most important, should also be subject to certain pricing rules.

The Commission will therefore issue a Recommendation to the Member States, pursuant to Article 63 (3) of the ECSC Treaty, designed to ensure that any undertaking or organization distributing steel shall be subject to rules similar to those imposed on producers by Decision N° 30/53 on unfair competition and discriminatory practices and N° 31/53 on publishing list prices and conditions of sale.

These measures will introduce obligations for first-hand stockholders, that is for undertakings or organizations distributing steel products and procuring the same direct from a producer in the Community or a non-member country.

They will relate to all categories of steel covered by the ECSC Treaty and all forms of sale, both ex stock and direct. They will also comprise pricing rules for the resale of products from a Community steelmaker or of products imported from a non-member country, regardless of any agreement.

The provisions applicable to stockholders delivering products unprocessed shall apply to the same extent to distribution undertakings which reduce or change a product into another one listed in Annex 1 of the ECSC Treaty (Steel Service Centre)

As well as drawing up an outline Recommendation, the Commission will also state the means it would like to see applied to ensure a coherent pricing policy for the whole Community.

The Member States will be asked in the Recommendation to take any appropriate steps regarding the notification of stockholders' price lists, the inspection measures for ensuring that stockholders fulfil their obligations and the penalties to be applied if the rules are broken.

Communication to be published in the Official Journal

The Commission is publishing a communication in the Official Journal recapitulating the Decisions it has taken over the years, in order notably to make price checks easier.

This will contain a special reminder that the documents listed in Decision N°1464 are the minimum required to be kept and submitted to its officials or authorized agents at inspections.

Any ambiguities relating to the interpretation of certain documents listed in that Decision will be explained in this communication.

The communication will also stress that, under Article 47 of the ECSC Treaty, officials and authorized agents must have access to all commercial, technical or accounting documents of undertakings in order to check whether the prices invoiced to, and paid by, customers comply with the rules in force.

Finally, the communication will state what documents must be provided, where necessary, to prove that steel products allegedly exported to non-member countries have in fact been so.

Individual inspections involving customers

Pursuant to Article 86 of the ECSC Treaty, the Commission will also ask Member States, on a case by case basis, to carry out certain checks on the customers' premises. Such requests will be made by letter in specific cases, when the Commission has reason to suppose that a producer is infringing the rules but has been unable to establish this during the inspection at the steel producer.

Carrying out checks at the consumer's premises is purely designed to see whether the steel producer has complied with the pricing rules. Obviously, any follow-up can involve only the producer in question and not the consumer.

III. MANDATORY QUANTITATIVE SYSTEM

A) Legal base

- a) Where Group II (heavy plate and universal plate) and Group III (heavy sections) of the production quota system are concerned, the conditions which will trigger a return to crisis measures based on Article 57 of the ECSC Treaty have been agreed, even if demand for these products remains low. The Commission has received assurances that the leading manufacturers of these products will accept any voluntary production and delivery quotas the Commission proposes. In this the situation therefore differs from September 1980.

Voluntary undertakings of this type by steel manufacturers, backed by measures to create the conditions necessary for reviving prices, will give the manufacturers the essential conditions for improving the operation of the market.

It has also proved possible to set up a voluntary system for coiled wire because there are relatively few manufacturers of this product.

Where the remaining Group IV products (concrete reinforcing bars and other merchant bars) are concerned, the large number of manufacturers and the production techniques involved make for a different situation; as a result the manufacturers have not been able to reach sufficient agreement to be able to propose criteria for a voluntary arrangement to the Commission. Nevertheless, in spite of the current difficulties, the Commission feels that enough progress has been made in restructuring and adjusting costs to prices to justify replacing the imposed quota system by a voluntary system in which manufacturers give the Commission certain undertakings. Clearly, the Commission will intervene if the market situation deteriorates.

- b) In view of the large volume of production not covered, the partial arrangement between manufacturers of Group I products (coils and strip rolled on special mills) and the Commission cannot guarantee an improvement in the market. Also, demand in this crucial sector has dropped so far that any further deterioration will have the most serious consequences for the steel industry as a whole. Such circumstances call for a system based on Article 58 of the ECSC Treaty.

- c) A system based on Article 58 solely for one group of products should be such as to enable the Community's manufacturers to find the requisite basis for effective cooperation in this area too. Its main objective should be to raise prices and ensure that, in line with the conditions faced by their main competitors outside the Community, the companies become financially viable.

B. PRINCIPLES OF APPLICATION

a) Voluntary arrangement

1) Scope

The voluntary system covers the following products:¹

- heavy plate and universal plate, excluding plate for large welded tubes;
- heavy sections, excluding special sections, mining sections and sheet piling;
- light sections: coiled wire, concrete reinforcing bars and other merchant bars.

With the exception of low-alloy steels (Sonderbaustahl), the voluntary system does not include alloy steels.

2) Reference production figures

Based on the experience gained by the Commission during the period of quota restrictions and on the work done by manufacturers, reference production figures will be established as follows:

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|----|---|---|
| I | { | <ul style="list-style-type: none"> - 1974 - the best twelve months during the period from July 1977 to June 1980 - the twelve months from July 1979 to June 1980 |
| II | { | <ul style="list-style-type: none"> - the quotas resulting from the application of the current Article 58 Decision converted into annual reference figures. |

¹ These products correspond respectively to Groups II, III and IV of the Article 58 production quota system.

The reference figures will be calculated as follows:

first take the average of the three sets of figures arrived at under I above; then calculate the figure for II above. The reference base is the average of these two sub-totals.

The main object of the system is to re-establish the balance between supply and demand in the market and this would be undermined if, even while the production quotas were being complied with, the volume of supplies to the market was relatively bigger than the quotas. In fixing the production quotas the Commission is taking market requirements in finished rolled products as a basis. These requirements are met by a supply programme which each company draws up for itself. This programme does not necessarily coincide with the company's short-term rolling programme but the latter must reflect the production quota. To make sure that the system is effective, the companies must so arrange things that the quantity supplied in one quarter corresponds with the production quotas. This means that any company supplying the market from stocks (net decrease during the quarter) should reduce its rolling programme for the quarter by the same amount.

Similarly, to avoid the quantities marketed in the Community exceeding those for the reference period, production quotas must be divided into quotas for supplies to the internal market and quotas for supply to world markets. As in the case of reference production figures, the reference supply figures will be calculated on the basis of a fixed series of historic data.

In order to continue the restructuring process, there will be no changes to the reference figures on the basis of new capacity criteria during the period of application.

Finally, the industry will have the option, as under the current system of production quotas, of selling or exchanging quotas.

b) System provided for in Article 58**1) Scope**

The mandatory system only concerns Group I products under the current production quota system (coils and hoop and strip rolled on special mills).

In view of the importance of coil production for the metal-working market (since only 20 % of production is sold as produced), it is necessary to include coil derivatives in this same mandatory system.

These derivatives fall within four groups:

- 1) Hot-rolled sheet at least 3 mm thick and hoop and strip produced by slitting;
- 2) Hot- and cold-rolled sheet less than 3 mm thick;
- 3) Galvanized sheet;
- 4) Other coated flat products.

Not included are:

- coils for electrical sheet, tinplate and stainless sheet;
- coils and hoop and strip for the production of large welded tubes;
- alloy steels, with the exception of "Sonderbaustahl".

All producers of (a) coils or rough-edged hoop and strip and (b) derived products shall be subject to the mandatory system.

2) Reference production

The reference production of coils shall be laid down in accordance with the same method as that set out in B. a) 2, page 8.

The series of derived products not subject to the system under Decision 2794/80/ECSC to be considered in laying down reference production figures shall be restricted to the first three referred to in Item B. a) 2(I), page 8.

However, as under the previous system and in order to ensure its effectiveness, non-compliance with the subdivision of deliveries into those on the domestic and world markets will, pursuant to Article 58 ECSC, be treated as an overstepping of the production quotas.

C. ESTABLISHMENT OF MANDATORY QUOTAS AND VOLUNTARY RESTRICTIONS

Whether the arrangement is voluntary or mandatory, the final responsibility for laying down or suggesting total production and delivery rates per product group and their distribution at company level resides with the Commission. It will therefore ensure that the quotas take account of both producer and consumer interests and that the price targets can be met, and in order to do this the Commission will consult all parties concerned before laying down quotas or restrictions.

As under the present system, the Commission will inform each undertaking of its production and delivery quotas or restrictions.

Where the arrangements are voluntary the Commission will ask each undertaking for an individual commitment.

D. MONITORING SYSTEM

As also provided for under the present system, the Commission will introduce statistical monitoring and direct supervision on the undertakings' premises.

Checks will be carried out by the Commission via statistics to be provided by the undertakings themselves and compliance with the quotas and restrictions will be verified monthly.

Since one of the obstacles to the voluntary system is the securing of optimum prices, the Commission will examine more closely rigid compliance with the pricing rules (Article 60).

Where a company has exceeded the prices laid down or has broken the rules, the Commission will ascertain whether it has received state aid enabling it to do so.

The checks on the undertakings' premises shall be performed on the Commission's responsibility by its own inspectors, assisted by accountants and production engineers.

IV. SOCIAL MEASURES

It is a fundamental aim of the Community's steel restructuring policy to create conditions in the industry, in particular the restoration of its competitiveness in the international market, which will provide stability of employment in the long term. The Commission is acutely conscious of the social burdens which the process of restructuring is imposing and will impose for some time yet, especially on certain communities. These burdens are increasingly difficult to bear in a context of high overall unemployment and of poor short and medium term prospects for employment growth in other industrial sectors. Against this background, the Commission reiterates its conviction that the Community itself should undertake measures to alleviate these burdens which, although by no means a desired end of its restructuring policy, are nevertheless an inevitable consequence of them.

The ECSC has already played an important role in supporting the arrangements which the member Governments have made to cushion in various ways the effects of mass redundancies in the steel industry. This action will be continued, but the Commission now proposes in addition to concentrate more closely on measures designed to help generate new employment in particular in areas where there has been a substantial loss of steel jobs.

First the Commission is examining ways of increasing its activity under Article 56.2(a) of the ECSC Treaty. The aim is to increase the volume of loans for reconversion and the total amount of interest rebates granted to investors in areas of coal and steel decline.

Second, the Commission is considering a range of aids more specifically aimed at job creation, including direct employment subsidies. It is intended that such aids should be introduced for a limited period under ECSC auspices for the benefit of former steel workers (and where appropriate former coal workers). In the longer run the Commission envisages that similar measures, among other aids

to job creation, will become part of the Social Fund's regular activities and will benefit areas of generally high unemployment, which are in many cases those where unemployment is attributable to or has been aggravated by steel industry restructuring.

PROCEDURES

I. PRICING POLICY MEASURES

1. Readjustment and restructuration of producers' list prices

This work will be carried out by the producers with the help of the relevant departments in the Commission.

2. Monitoring the producers' compliance with Article 60

The Commission is taking the necessary steps to intensify, from 1st July 1981, the monitoring of the undertakings' compliance with their list prices.

3. Supplement to Article 1 of Decision N° 30/53 to include the stockholder tied by his direct sales on behalf of the controlling producer

- consultation between the producers and the rerollers
- consultation with the stockholders
- consultation with the Consultative Committee
- consultation with the Council
- draw up a final text with the Legal Service and interested departments.

4. Recommendation to the Member States concerning Article 63-3 in order that they take the necessary steps to oblige the independent stockholder to adopt rules similar to those imposed for Article 60 and the decisions for its application

- inform the producers
- inform the stockholders
- inform the Consultative Committee
- inform the Council
- draw up the final outline with the Legal Service, including the motivation (grounds).

5. Communication to be published in the O.J. in order to define the interpretation of Decision 14/64 regarding the minimum of commercial and accounting documentation the undertakings should keep and submit to the Commission's agents and officials

Simple information to the producers and finalisation of the Communication with the Legal Service and interested departments.

N.B. Possibility of calling the Member States to collaborate (base Art. 86) on the consumer checks

By letter per specific case.

II. QUANTITATIVE RESTRICTION MEASURES

6. Decision regarding Article 58 for coils, hoop and strip rolled on special mills and also for coil derivatives

- consultation with producers, rerollers and stockholders
- consultation with Consultative Committee
- assent from the Council.

7. Voluntary Arrangement

Decision under Article 47 fixing the statistical declarations to be submitted to the Commission for those products excluded from Article 58

Neither the Consultative Committee nor the Council need be consulted for this decision.

III. SOCIAL MEASURES

8. Set of preliminary ideas for additional social measures to create jobs

- notification of Consultative Committee
- notification of Council
- drawing-up of detailed proposals either for decision by the Commission or for submission to the Council