COMMISSION OF THE EUROPEAN COMMUNITIES

COM (88) 343 final

Brussels, 16 June 1988

COMMUNICATION FROM THE COMMISSION

ON STEEL POLICY

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PROPOSAL FOR A COUNCIL DECISION

ON A CONTRIBUTION FROM THE GENERAL BUDGET OF THE COMMUNITIES
TO THE ECSC TO FINANCE SOCIAL MEASURES CONNECTED WITH THE
RESTRUCTURING OF THE STEEL INDUSTRY

(Submitted by the Commission)

STEEL POLICY

1. Introduction

At its "Industry" meeting on 24 June 1988, the Council has to decide the organization of the steel market after 1 July 1988. It is therefore worth reviewing steel policy in the light of the conclusions of the Council meeting on 29 and 30 October 1985.

At that meeting it was decided to liberalize the steel market progressively over a transitional period of no more than two or three years. The scope of the quota system - set up under Article 58 of the ECSC Treaty - which had been in force since 1980-was then gradually reduced by removing quotas on concrete reinforcing bars (Category V) and non-galvanized coated sheet (Category Id) on 1 January 1986, galvanized sheet (Category Ic) on 1 January 1987 and wire rod (Category IV) and merchant steels (Category VI) on 1 January 1988.

Thus the quota system, which the Council approved[1] on 22 December 1987 for a period of six months (until 30 June 1988) now covers only flat products in Category Ia (hot-rolled wide strip), Category Ib (cold-rolled sheet) and Category II (heavy plate), and heavy sections (Category III). The Council also considered that it would be possible to extend coverage of Category II and III products until the end of 1990, provided that by 10 June 1988 at the latest the Commission had received commitments to close down at least 75% of the surplus capacity identified by the Commission. For Category I products, in respect of which the Commission considered that the conditions in Article 58 of the ECSC Treaty were no longer being met,

1 In accordance with the Commission's proposals (Doc. COM(87)640 amending Doc. COM(87)388).

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the Council agreed that, if the Commission tabled a proposal to continue the system beyond 30 June 1988, it would be accepted provided commitments had been given to close down at least 7.5 million tonnes of Category Ia capacity.

2. The market situation for categories still covered by the quota system

2.1. Under Article 58 of the ECSC Treaty, the Commission must establish a system of production quotas if, in the event of a decline in demand, it considers that the Community is confronted with a period of manifest crisis and that the means of action provided for in Article 57 are not sufficient to deal with it. Although the Commission has some scope for interpretation in this connection, decline in demand is an important condition for the establishment or maintenance of a quota system.
The table below shows production figures for the four categories of products covered by the quota system which applied in the first half of 1988 (Decision 194/88/ECSC of 6 January 1988).
It should be noted that 1980 is the year in which the manifest crisis was declared and that 1979 is the boom year which preceded it.

Steel production in the nine Member States (in '000 tonnes)

Product*	1979	1980	1986	1987 (provisional)
Ia : wide and narrow strip	55 099	50 100	51 323	53 480
of which: wide strip	49 792	45 760	49 422	51 724
Ib : cold-rolled sheet	28 980	26 193	26 864	28 156
II : reversing-mill plate and wide flats	10 191	9 724	8 141	7 843
III: heavy sections (not including piling and permanent-way material)	6 497	6 389	5 152	5 302

* As this is production from rolling mills by category, which means that Category Ia includes products which have been processed to become Category Ib products, actual production under quota represents only part of the figures given.

2.2. The trend in production of Category Ia and Ib products shows that there are no grounds for claiming a decline in demand since production in 1987 was far higher than in 1980. In fact, after a hesitant start in 1987, the Commission was able to report that demand firmed up, not only within the Community (particularly in the motor industry which is continuing to report record production levels) but also outside (demand from countries other than the USA). These developments were accompanied by regular price increases, even on export markets, and this in spite of the fall in the dollar.

Cuts in capacity pushed the average utilization rate of Category Ia capacity up to 77% in 1987, which was even higher than the 70% recorded in the boom year of 1979. This 77% figure is only an average and in some undertakings the percentage is much higher. In fact, when the "Three Wise Men" were preparing their report at the end of 1987, some steel firms were claiming that their capacity was already being fully used. Moreover, if the Commission decided to accept the capacity figures reported by some undertakings, which are lower than those it actually used, this average would be even higher.

All available indicators point to this favourable situation continuing in 1988.

2.3. Although all the undertakings - except one - which produce the four categories of products under review are making a profit on Category I products, many are making a loss on Categories II or III. Unlike Category I products, the improvement in the market for these products has resulted only in price increases. Moreover, with these categories of products, utilization rates tend to be under 60%, which shows that the restructuring process has not achieved a satisfactory result and that the capacity reductions requested by the Commission and the Council are more necessary than ever.

3. Reductions in capacity

The conditions which the Commission and the Council required for any extension of the quota system beyond 30 June 1988 can be summarized as commitments to close down 7.5 million tonnes of Category I capacity, 4.4 million tonnes of Category II capacity and 2.5 million tonnes[2] of Category III capacity (in these last two categories, this represents 75% of the surplus capacity according to the low assumption in the General Objectives). These reductions in capacity may be achieved only by closing down mills, in other words any indirect effects on maximum possible production of mills by closures in the liquid phase are not taken into account in the closure objectives set on 22 December 1987. It has to be admitted that closures had not reached these levels by the deadline of 10 June 1988. This is further evidence that the industry did not make sufficient use of the transitional period to complete its restructuring.

(a) In Category I, the industry did not make any real effort to coordinate closures, which seems to imply acceptance of the conclusions reached by the Commission and the Three Wise Men that there is currently no crisis.

(b) In Category II, the industry has managed to obtain commitments for closures totalling some 1.5 million tonnes. This is some way below the objective set as the precondition for extension of the quota system.

(c) In Category III, the industry has managed to achieve closures totalling 2.1 million, although 1.3 million tonnes of these are

2 Figure corrected to take account of the fact that one mill (SEII) had mistakenly been put in Category III instead of Category VI (the original figure was 2.8 million tonnes).

not sufficiently firm commitments. This means that, here too, the preconditions for maintenance of the quota system have not been met.

4. Measures to be taken

The Treaty of Paris is based on the principle of free market competition as the normal situation, and Article 5 empowers the Commission to exert direct influence upon production only when circumstances so require. Under Article 57, the Commission must give preference to indirect means, in particular in its intervention with respect to prices and trading policy. The Treaty stipulates that competition is to take place under normal conditions.

Furthermore, it must be borne in mind that completion of the internal market in 1992 is also a crucial objective for the steel market. Preparing for the 1992 deadline requires a radical change of strategy on the part of entrepreneurs, whose thinking is still all too often dominated by national market considerations.

As indicated above, the steel market has improved, in particular for category I, to such an extent that the difficulties which the steel industry has being undergoing in recent years have to a large extent been ironed out. Company results have improved, so that in 1988 some have achieved a gross profit of over 13.5%, the Commission's criterion for viability.

The steel industry has undertaken to introduce major restructuring measures for the liquid phase and to rationalize production. However, their introduction has in many cases been delayed, and should be accelerated to bring about more appreciable progress in terms of productivity.

It should be noted that the world market, despite a certain improvement in the economic situation, is still characterized, on the one hand, by very considerable overcapacity and the restrictive measures which some countries apply to imports, and on the other by a number of unfair competition practices. Under these circumstances the Community ought to retain the principal elements of the external measures which have been in force since the late 1970s. It must also continue to implement and even step up its system of anti-dumping measures in order to be able to respond effectively to unfair practices.

Within the Community as well, there are some distortions of the market, notably owing to the aids granted, or likely to be granted, to the Italian steel industry, which infringe Article 4(c) of the Treaty as they do not serve the aims of Decision 3484/85/ECSC.

4.1. Quota system

If the steel industry gives the Commission assurances on capacity reductions of the order of 4.4 million tonnes for category II and 2.5 million tonnes for category III, the Commission and the Council are bound to maintain the commitments they made on 22 December 1987.

The information available up to 10 June suggests that the industry will be unable to attain these objectives. If that is so, a quota system cannot be implemented. If the conditions are met by 24 June 1988 only for category III, the quota system could then be extended for that category.

4.2. Accompanying document

Decision 3717/83/ECSC, in which the Commission introduced the accompanying document and the production certificate, ought in any case to be abolished. This measure, which was introduced at the

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most acute stage of the crisis, constitutes a major obstacle to intra-Community trade. All deliveries from one Member State to the market of another are, under this Decision, subject to frontier checks and payment of deposits where these documents are incomplete, incorrect or missing. The barriers to trade in steel products entailed by this Decision are unacceptable as the 1992 internal market deadline approaches.

4.3. State aid

The Commission is continuing its vigilance on state aid and is currently reveiwing the operation of the present Aids Code (Decision 3484/85/ECSC) with a view to its extension beyond the end of 1988. A proposal will be put forward in the Autumn.

Tha aid requirements of the Italian public steel sector cannot be dealt with under the Aids Code. The only possibility of obtaining derogation from the general prohibition on operating and investment aid in the steel sector is by means of a decision under Article 95 ECSC. If it considers preparing such a decision, the Commission should envisage substantial reductions in capacity and ensure that the aids granted are not used to improve the position of the Italian public steel sector on the market to the detriment of other Community enterprises. Without such a discipline, the objective of Article 5 ECSC (to "ensure the ... maintenance and observance of normal competitive conditions") would not be achieved.

5. Accompanying measures

The steel market has improved to such an extent that the quota system is no longer justified. Furthermore, the system has proved inadequate for inciting firms to complete the restructuring process, the basic necessity for which is not questioned. While the Commission believes that structural adjustment must continue under the influence of normal market forces, it is still aware of the world market context in which this adjustment would take place, of the inevitable social and regional consequences and of the need to back steel firms' research activities. This is why it intends to pursue and even reinforce its activities in four main areas.

5.1. The system of external measures

Abandoning the quota system under Article 58 of the ECSC Treaty does not necessarily mean liberalizing the external aspects of steel policy, since restructuring in the Community is not complete and a certain degree of protection against the outside world is still needed in order to avoid disturbances caused by massive low-priced imports, which chiefly originate, as indicated above, in worldwide overcapacity in a period of continuing currency fluctuations.

The changes to internal policy should not call into question the factors which largely govern the future of the external aspect:

1. The commitments which the Community has to make in line with the spirit of Punta del Este - standstill and rollback;

2. The attitude of the new U.S. government at the end of the President's programme (end of October 1989) and its plethora of arrangements with 23 exporting countries.

Even if it is too soon to draw up proposals for negotiating directives for 1989, the Commission, while holding to the principle that trade in steel must remain as free from restrictions and distortions as possible, believes that the Community must, for the next year, retain the main features of these contractual and autonomous trade policy measures.

Regarding non-member countries other than those covered by the present arrangements, the Commission proposes to negotiate arrangements where the countries concerned so request and are clearly unable to prevent their producers causing distortions to competition in the Community's markets. Nevertheless, it would be desirable to avoid a multiplicity of new arrangements, which should be the exception.

Major improvements to the anti-dumping procedures and countervailing duties were made in 1988, but the Commission will continue its every effort to speed up the full application of regulations in this area.

5.2. Social measures

Since the early 1980s the employment situation in the steel industry has been bad enough to necessitate additional social support measures, since the conventional aid schemes provided for in Article 56 were inadequate to meet the needs created by restructuring.
The restructuring process, including the liquid phase, will continue to cause major job losses in 1988 and beyond, and these social measures will continue to be an essential part of steel policy.
The scale of the social measures necessary to make the planned restructuring acceptable in social and human terms means that exceptional financial resources must be tapped.

In accordance with the conclusions reached at the Council meeting on 22 December 1987 and in the light of the conclusions reached at the European Council on 11 and 12 February 1988, particularly with regard to customs duties on ECSC products, the Commission announced, in the course of the 1988 budget procedure (Doc. COM(88)342 of 9 June 1988), the manner in which it intends to finance the social measures in 1988 and after. This will require commitments from the three parties concerned, namely the Council, the Commission and the steel industry, to, respectively:

- a contribution to the ECSC from the revenue accruing to general budget for 1989 and 1990 under the head of customs duties on ECSC products;
- a repayable advance from the ECSC reserves in 1988; and
- a modest increase in the ECSC levy as from 1989.

The draft of a decision concerning the above-mentioned contribution to the ECSC is contained in an annex to this memorandum.

At the same time, to provide greater cohesion between the extraordinary measures and the conventional redeployment aid, the Commission has taken steps to ensure that such aid is more transparent, fair and effective. It has adopted a new common aid system, for which the new rules will shortly be negotiated with the governments of the Member States, so that Community asistance can be matched as closely as possible to the national context within which the supporting social measures are implemented.

5.3. RESIDER Programme

A Community programme to assist the conversion of steel areas (RESIDER) was instituted in a Council Regulation of 2 February 1988. Two aid programmes are currently under consideration and applications relating to several other areas are in the pipeline.

The present budget for the Programme is 300 million ECU for the first three years, 1988-90. However, in its communication to the Council COM(87)388 final of 17 September 1987 concerning steel policy, the Commission stated that this sum was provisional and was to be increased. The Commission will therefore review the amount allocated to the RESIDER programme in due course and in any case before the end of the three-year period.

5.4. Research

One of the best ways of ensuring a future for the steel industry, as for any other, is to maintain an intensive R&D activity. The more exacting quality requirements of users must be met and [illegible] competitive [illegible] world producers. To this end the European Community has set up general research programmes (BRITE, EURAM, etc.), which are also accessible to the steel industry, as well as the special technical steel research programme. Under Article 55 ECSC the Commission promotes technical and economic research relating to the production and increased use of steel. In 1985 pilot and demonstration projects were added to the programme. And research has been redirected towards promoting the consumption of steel through innovative products or new uses for existing products.

These trends must be reinforced by concentrating research in the priority areas chosen for their potential impact on competitiveness. In order to give these changes their utmost impact, <u>cross-border cooperation</u> must be increased between research institutes, steel producers and, where appropriate, steel users. These are the ways in which the steel industry will prepare itself for completion of the single market in 1992.

6. <u>Conclusions</u>

The Council is requested:

- to endorse the policy guidelines contained in this communication;

- to adopt the annexed Decision concerning a contribution to the ECSC from the general budget.

PROPOSAL FOR A COUNCIL DECISION

ON A CONTRIBUTION FROM THE GENERAL BUDGET OF THE COMMUNITIES TO THE ECSC TO FINANCE SOCIAL MEASURES CONNECTED WITH THE RESTRUCTURING OF THE STEEL INDUSTRY

EXPLANATORY MEMORANDUM

In its steel policy communication of 31 July 1987 (COM(87) 388) the Commission asked the Council to authorize a transfer of 50 MioECU from the General Budget to the ECSC to pay for supplementary social aid to be granted in 1988 in connection with the restructuring of the steel industry. This document explained that, at the existing levy rate of 0,31%, ordinary ECSC resources are not able to cover the financing of these extra social costs but that it was possible that similar financing needs in 1989 and 1990 could be met from the reformed structural funds.

In the three years 1988-90 the Commission now estimates the cost of supplementary social aid for some 55.000 workers expected to lose their jobs as a result of restructuring (Art. 56.2b/ECSC) during this period at 50, 55 and 60 MioECU in the three successive years, a total of 165 MioECU. The supplementary aid will be needed to help finance early retirement for some workers and reemployment premiums for others.

The Council at its meeting of 22.12.1987 suggested that the Commission take the 50 MioECU needed for 1988 from ECSC reserves and recorded its readiness to reexamine future funding arrangements in the light of requirements and bearing in mind the possibility of a transfer of ECSC customs duties to the Community. At this time the Commission noted in a declaration that there was no surplus available in the ECSC reserves.

Parliament, for its part, in a resolution voted on 17.12.1987, supported the proposed supplementary aid scheme and wanted to backdate it and increase the size of the 50 MioECU transfer. In the previous Parliamentary debate the Commission's representative did not consider the moment opportune to increase the request for resources and recalled that the Commission was examining further possibilities of financing the measures concerned by increasing the ECSC's income (by drawing on customs duties on ECSC products, or by increasing the levy on production of coal and steel) or through the reorganization of the structural funds.

Following the February European Council the possibility of financing a fully fledged sectoral aid scheme under the Social Fund within the comprehensive proposal for the structural funds must be discounted. In its comprehensive proposal (COM (87)376 final and in its modified form COM(88)144 final) the Commission had proposed that the Social Fund should be able to intervene throughout the Community to help restructuring in specific sectors. However, as reflected in the February European Council's decision to restrict Structural Fund action under the new objective 2 to the reconversion of declining industrial areas, a majority of Member States are opposed to using the Funds to support purely sectoral initiatives.

This means that any Community initiative for ECSC industries would have to be restricted to zones meeting the general criteria foreseen for action of the Funds under objective 2, in particular the criteria relating to areas which have registered, or are experiencing or are threatened with substantial job losses in industrial sectors crucial to the economic development of the zones concerned and leading to a serious increase in unemployment in these zones.

Given these limitations on the action of the Structural Funds, the Commission is of the view that the ECSC's budget must be reinforced in order to meet the special needs in the social area which have arisen from the restructuring of ECSC industries.

It therefore proposes to finance the total of 165 MioECU mentioned above by means of :

- an increase in the levy in 1989 and 1990 (80 MioECU, equally divided between the two years);

- the grant to the ECSC in 1989 and 1990 of the equivalent of a part of the new receipts of customs duties on ECSC products (85 MioECU : 65 to cover 1988 and 1989 commitments, 20 to cover 1990 commitments). The total of these receipts is now estimated at 80 MioECU a year net of collection costs;

- an advance on ECSC reserves, of 50 MioECU maximum, could be made available, exceptionally and for one year only, to cover commitment requirements in 1988, it being understood that this amount will only be made available if the decisions in the two paragraphs above are adopted.

The present draft decision accordingly provides the legal basis for transferring the equivalent of a part of the ECSC customs duties from the Communities general budget to the ECSC operating budget.

PROPOSAL FOR A COUNCIL DECISION

ON A CONTRIBUTION FROM THE GENERAL BUDGET OF THE COMMUNITIES TO THE ECSC TO FINANCE SOCIAL MEASURES CONNECTED WITH THE RESTRUCTURING OF THE STEEL INDUSTRY

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament[1],

Having regard to the opinion of the Economic and Social Committee[2],

Whereas the Commission has decided to restore normal market conditions in the steel industry and therefore to reestablish free competition between undertakings in the Community; whereas the accompanying social measures must consequently be stepped up;

Whereas to achieve this objective a set of measures will be taken by undertakings to help rationalize production and bring productivity in this sector up to the level required to enable the undertakings to compete both within the Community and throughout the world, in accordance with the "General Objectives for Steel - 1990" within the meaning of Article 46 of the ECSC Treaty;

Whereas restructuring will lead to substantial job losses and must therefore be supported by exceptional social measures to cushion the adverse impact on the workers involved; whereas in this respect, it has proved necessary, within the range of measures available under Article 56(2)(b) of the ECSC Treaty, to support in particular aid for early retirement and the framework measures for re-employment, which will continue to be preponderant among the accompanying social measures for steelworkers;

Whereas if no action were taken to counter the difficulties caused by the widespread lay-offs in the steel industry, this situation, in particular through its secondary effects, would be likely to produce a marked worsening in the general employment situation in the Community and compromise the harmonious development of economic activity, thereby hampering the Community in one of its most essential objects;

Whereas the resources available under the ECSC Treaty are not sufficient to finance the proposed measures; whereas an exceptional contribution will thus be needed from the general budget of the Communities in 1989 and 1990, totalling 85 million ECU (65 million ECU in 1989 and 20 million ECU in 1990);

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Whereas Article 2(1)(b) of the Council Decision of 1988 on the system of own resources[3] lays down that customs duties on ECSC products (hereinafter referred to as "ECSC customs duties") constitute Community own resources; whereas the abovementioned exceptional contribution can be made by payment of an amount equal to part of these duties,

HAS DECIDED AS FOLLOWS:

Sole Article

To guarantee the Community financing of social measures to support the restructuring of the steel industry, the ECSC shall be allocated 65 million ECU from the general budget of the Communities in 1989 and 20 million ECU in 1990, constituting a part of the ECSC customs duties.

Done at , 1988

For the Council

The President

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