



COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE EUROPEAN COMMISSION  
TO THE COUNCIL, THE EUROPEAN PARLIAMENT AND THE  
ECSC CONSULTATIVE COMMITTEE ON

**A GLOBAL APPROACH TO PROMOTE REGIONAL AND SOCIAL CONVERSION  
AND TO FACILITATE INDUSTRIAL RESTRUCTURING IN THE  
CENTRAL AND EASTERN EUROPEAN COUNTRIES:  
THE CASE OF STEEL**

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**I. INTRODUCTION: OBJECTIVES OF THIS COMMUNICATION**

As indicated in Agenda 2000, the preparations for EU membership of the applicant countries of central and eastern Europe<sup>1</sup> will have to include a considerable effort to increase the competitiveness of their industry and bring their laws into line with the 'acquis communautaire'. In the case of certain heavy industries, this will inevitably entail significant job losses.

In the case of the steel industry, the impact of restructuring will be particularly painful, as steel plants in central and eastern Europe tend to be concentrated in industrial regions where they are the principal economic activity, often alongside coal-mining.<sup>2</sup> Industrial restructuring and modernisation of this sector will therefore have to be accompanied by regional and social measures to attenuate its impact on society and the economy.

The regional and social measures set out in this communication draw on the experience of the EU when it faced similar problems in its steel industry and will be co-ordinated with IFIs and the applicant countries. These measures will act as a catalyst for co-operation on restructuring between the EU, IFIs, private sector and the applicant countries, notably through co-financed projects.

The restructuring of the steel industry will be designed and implemented by the undertakings themselves in close co-operation with their national governments and with assistance from private sector strategic investors. The aim of the restructuring programmes should be to establish a viable and competitive steel industry in central and eastern Europe according to a clear timetable, taking into particular account the likely

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<sup>1</sup> Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

<sup>2</sup> On average the steel industry accounts for approximately 3% of industrial employment and 8% of industrial production in these countries, but in some regions coal and steel provide some 37 to 46% of industrial employment (cf. Annex I).

evolution of supply and demand in the market for steel across Europe. Successful restructuring will facilitate this industry's integration into the internal market as the EU enlarges.

The bulk of the funds required for the restructuring of these countries' steel industry, which has been estimated at the level of \$10 billion between 1994-2002,<sup>3</sup> will have to come from the companies themselves and from strategic private sector investment with, where possible, the support of the international financial institutions.

The public sources available, both in the associated countries and the EU, are modest in comparison with needs on the above-mentioned scale. Private investors will be interested in the steel companies only if the restructuring costs are not so heavy as to undermine the future viability of particular projects. Therefore, assistance to social and regional conversion would encourage strategic private sector investment. The role of the European Union's support through the Phare programme would be to act as a catalyst for mobilising such investment, by addressing the social and regional aspects of restructuring.

Support from the Community to facilitate the restructuring of the steel industry in the applicant countries will also be of indirect benefit to the coal industry<sup>4</sup> in the same regions.

The objective of this communication is to establish a methodology for a global approach to this issue on the part of the EU, based on an analysis of the current situation. It sets out the framework, principles and conditions governing Community support to address the social and regional consequences of restructuring the steel industry in the applicant countries. It will be submitted for information to the ECSC Consultative Committee, the Council and European Parliament. It will form the basis for further discussions with the applicant countries in the framework of the accession partnerships and their restructuring programmes, as well as with the IFIs.

## II. CURRENT SITUATION

### 1. Basic data on the steel industry in central and eastern Europe

Under central planning the steel industry was an important part of the industrial fabric of the economies of central and eastern Europe. In 1986 per capita steel production in these countries was 565 kg per year; in the European Community the equivalent figure was 330 kg. After the political upheavals of the early 1990s, the approximately forty central and eastern European steel producers faced radical changes. Production fell from 53 million tonnes in 1986 to 29 million tonnes in 1992 or 312 kg per inhabitant that year.

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<sup>3</sup> According to the different restructuring studies, financed by PHARE during the period 1993-95 and the official national restructuring programmes.

<sup>4</sup> Restructuring of the coal industry and conversion of coalmining regions will be particularly delicate and should be given particular attention by the EU during the preparations for accession.

Over the same period capacity for crude steel production fell by 15 million tonnes, or twenty-five per cent.

A distinctive feature of the steel industry in central and eastern Europe is that approximately half of total capacity in these countries consists of large industrial complexes sited far from shipping routes and other developed transport routes.<sup>5</sup> These steelworks were established on the basis of a single criterion - proximity to coalfields - which has since declined in importance. This disadvantage over the most efficient steelworks in the EU is only partly offset by the availability of a skilled and relatively cheap local workforce.

Since 1990 demand for steel in central and eastern Europe has fallen sharply. Between 1990 and 1992 apparent consumption of crude steel in the applicant countries fell from 32 to 16 million tonnes. The figures for rolled products are 25 and 13 million tonnes respectively. In response to this collapse in consumption in their own countries and in demand from the NIS, previously one of their leading export markets, central and eastern European countries turned their sights to developing new export opportunities, particularly in the European Union, whose share of their steel exports has risen from 21% in 1990 to 40% in 1995. This shift is expected to level off and has failed to raise the financing necessary for restructuring, partly because of the scale of the needs and partly because these exports have generally taken the form of low value-added products sold at unprofitable prices.

In 1993 domestic demand started to pick up in most applicant countries at an average rate of 10% a year up to 1995. Despite this strong growth, in 1995 it was still approximately 50% below 1986 levels. Moreover, from 1996 onwards the pace is expected to slacken on the whole for the applicant countries, given the changing pattern of consumption and final user trends. In future cost increases can also be expected, particularly of labour, iron ore and energy as price liberalisation continues. Finally, the customs tariffs for imports of steel from the EU should be phased out by 2001 to 2002 under the Europe agreements. Consequently, the conditions for making the central and eastern European steel industry profitable once again in the medium term are by no means secure.

Further information on the relative importance of the steel industry in the associated countries is provided in the tables of Annex II and in Annex V respectively. The tables in Annex II concern only six CEECs. They exclude Estonia, Latvia and Lithuania, which have virtually no steel industry, and Slovenia, where the steel industry has rather modern production plant for special steels and faces no major restructuring problems.

## 2. Progress with restructuring and modernisation is proving slow

The modernisation and restructuring of the steel industry in the applicant countries is encountering major problems, in general due to difficulties with raising sufficient funding. These difficulties continue to be experienced despite an extensive technical assistance programme devised since 1991 by the Commission in collaboration with the

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<sup>5</sup> Katowice (Poland), Sendzimir (Poland), Vitkovice (Czech Republic), Nova Huta (Czech Republic), Trineck (Czech Republic) and Kosice (Slovakia). In this respect, SIDEX-Galati (Romania) is an exception.

industry and funded primarily by Phare and despite the economic upturn in several central and eastern European countries since 1994.

The restructuring process needs to be accelerated, in particular in the following two broad areas:

- a) Technical, commercial and management weaknesses and legislative and administrative obstacles need to be addressed.

Installations are still not up to the standards of the steel industry in the EU. They were tailored to the needs of centrally planned economies and, in the late 1980s, were still marked by the importance attached to heavy products intended primarily for the armaments industry and by the lack of attention paid to energy efficiency, since they had been unaffected by the oil crises. Consequently, considerable efforts are required to convert and modernise production plants.<sup>6</sup>

Further improvements are needed in accounting systems and management must be geared more to meeting the needs of the market.

Moreover, the legal framework in the applicant countries, particularly on taxation, company law, property rights, social legislation, can deter investment, particularly from foreign companies. In the case of standardisation and certification, certain requirements create obstacles to bringing products onto the market and innovation. Progress in approximating EC legislation in these fields is continuing, but should be intensified.

These weaknesses are reflected in persistently low productivity and insufficient cash flow.

In 1995 productivity stood at 496 tonnes of crude steel per person per year in the EU(12) compared with 98 tonnes for the central and eastern European countries as a whole; productivity growth has also been slower than in the EU (the 1990 figures were 355 and 76 respectively).

Although the average rate of capacity utilisation for crude steel and a few flat products in central and eastern Europe is now close to the EU level, in many cases production remains unprofitable, and some of the processes and installations used are obsolete.

Weak cash flow reduces the steelwork's scope for self-financing modernisation and restructuring and inhibits it from developing downstream activities which would create additional added-value and would help it to absorb the workers who are otherwise surplus to requirements.

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<sup>6</sup> By way of example, open-hearth furnaces disappeared decades ago in the EU (excluding the former German Democratic Republic) but still account for almost 10% of production in central and eastern Europe. Electric furnaces account for just 19% compared with 40% in the EU and, finally, continuous casting for only 41% compared with over 92% in the EU.

- b) Privatisation, regional and social dimensions of restructuring, infrastructure and the environment also need to be addressed.

The steel industry's financial resources remain severely limited in comparison with estimated modernisation and restructuring costs of over \$10 billion for central and eastern Europe between 1994 and 2002. Often low public resources and budget constraints have led the applicant countries to abandon plans already under way, as in Bulgaria where the modernisation plan defined with Phare support was only partly implemented.

Successful modernisation of the industrial plant depends significantly on at least partial privatisation, an objective pursued by most applicant countries, some with greater success than others. Progress has been made in Slovakia and the Czech Republic, but the process has only recently got underway in Poland and Hungary and has not yet begun in Romania and Bulgaria. The problem in these countries is not so much the lack of private capital as the lack of interest on the part of investors, both national and foreign, in undertakings offering no prospect of viability unless the social and regional side of restructuring is brought under control.

The social and regional dimension of the restructuring in progress is a cause for concern. It will involve heavy job losses, estimated at between 200,000 and 250,000 in the applicant countries between 1996 and 2002. This aspect of the restructuring process is exacerbated by the regional concentration of the steel industry. The major steelmakers are clustered in an industrial triangle on the Polish, Czech and Slovak frontiers. This region alone accounts for some 150,000 jobs, that is 40% of all employment in the steel industry in central and eastern Europe.

Infrastructure in these regions is under-developed and, particularly in the transport sector, requires substantial improvements, not only to boost the competitiveness of the steel industry but also to stimulate economic conversion and revitalisation in these regions.

The environmental problems are acute. For example, in Poland, emissions from the steel industry account for 10% of all industrial emissions, which is twice this industry's share of production. Moreover, the concentration of these emissions in the Silesia region, where abundant local coal reserves are used to generate the electricity required by the steel industry, accounts for the seriousness of the air pollution problem in this area. Consequently, pollution abatement must be one of the objectives of modernisation of the industry and of the social and regional side of the restructuring measures.

Thorough restructuring of the steel industry in central and eastern Europe, with particular emphasis on its social and regional dimension, will diminish the risk of trade disputes, if tariff protection in central and eastern European countries were to continue or to be increased, and the risk of social and regional problems in the region.

### III. REINFORCEMENT OF THE PRE-ACCESSION STRATEGY WITH A VIEW TO HARMONIOUS INTEGRATION OF THE CENTRAL AND EASTERN EUROPEAN STEEL INDUSTRY INTO THE EU: A NEW APPROACH

#### 1. Objectives

The Community's objective is to contribute to the adjustment of the steel industry in central and eastern Europe in preparation for integration into the Community's internal market. This implies that by the time of accession the industry is capable of responding to the changing demands of the market, is equipped with modern production plant, free of overcapacity and, finally, in a healthy financial state. Particular efforts should be made to address the social and regional problems that this adjustment will entail.

#### 2. Characteristics of the new approach

The new approach should be regional, integrated and concerted:

##### (a) Regional/transnational

All the applicant countries have reacted to the falling domestic demand by stepping up their exports, particularly to the EU. In many cases, import restrictions among the applicant countries continue to apply. A regional approach is the only way to produce a consistent response to these changes.

The tendency in each applicant country is to set the lowest possible capacity-shedding targets and rely primarily on stepping up exports. In an enlarged European Union there is therefore a risk that the combined effect of these plans could aggravate overcapacity. Only a global approach would avoid this. It would provide a means of generally increasing awareness in central and eastern Europe of capacity and demand trends on the relevant markets, particularly for hot-rolled products, which are suffering from worldwide overcapacity.

##### (b) Integrated

To attempt to address the issues outlined above (section II.2), assistance should be targeted at speeding up the changes to the legal and economic framework, improving business management and promoting easier access to sources of funding. This should be backed up by help with implementation of the social and regional measures which are necessary for the success of the restructuring process, since private investors will not risk channelling their resources into this industry unless they are sure that this side will be dealt with.

Moreover, as similar problems in the EU have shown, industrial changes entailing substantial capacity-reduction cannot succeed without conversion programmes to promote the creation of employment opportunities, retraining and clean-up of industrial sites.

(c) Concerted

In order to implement these measures successfully, the participation of all players involved, whether from the central and eastern European countries, from the EU or banks and international financial institutions, will have to be secured by means of concertation at three levels:

- at multilateral level, channels should be created for discussions with the central and eastern European countries and the financial institutions to give their views on the analysis and guidelines set out in this communication. They will also monitor the measures taken to facilitate the restructuring;
- at bilateral level these measures have been included in the accession partnerships concluded with each applicant country concerned; they will also be monitored within the same framework;
- finally, at national level in each applicant country, co-operation with the central and regional authorities primarily concerned and consultation with labour organisations would facilitate the implementation of the social and regional aspects of restructuring.

3. Content of the new approach

The EU should support the restructuring of the steel industry in central and eastern Europe both directly and by acting as a catalyst to stimulate investment from IFIs and the private sector in four principal ways:

(a) Assistance with the definition and funding of accompanying social and regional measures

The restructuring of the industry itself will be borne by the undertakings themselves, particularly with assistance from private sector strategic investors, who will require reassurance that they will not have to pay the full social costs of the necessary restructuring (see Annex 3). Consequently, the impact of restructuring the steel industry on employment in certain regions will call for an extensive package of social and regional measures.

The experience acquired in the European Union, with its full range of measures covering both the social aspects (early retirement, training, enhanced unemployment benefits, etc.) and the regional aspects (infrastructure, promotion of small businesses, etc.) of restructuring, is useful in this respect.<sup>7</sup> Drawing on this experience the Resider initiative was launched in 1988 to supplement the conversion programmes for the steel-producing regions in the Community

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<sup>7</sup> Details of measures implemented in the Community to accompany the restructuring of the steel industry are set out in Annex V.

eligible under objective 2 of the structural funds. IFIs have also gained considerable experience in this field, notably through the World Bank social adjustment loans granted to certain central and eastern European countries. By taking into account this experience and the specific features of the applicant countries, it is possible to define more clearly the objectives and content of the integrated regional development actions that should be established with the support of Phare for regions severely affected by industrial change, such as steel regions:

- initially, Phare could concentrate on assistance for defining integrated conversion plans for the regions concerned, giving priority to creating alternative jobs to replace those lost in the steel industry:
  - measures to modernise the economic environment (local development schemes, provision of services for businesses, etc.);
  - assistance for the creation of new jobs, particularly in small businesses, in research and technological development and through support for the creation of micro-entreprises by workers made redundant;
  - assistance for cleaning up industrial sites;
  - These measures should be accompanied by training programmes which take account of the needs and abilities of the workers involved and which are targeted towards likely job opportunities;
- secondly, Phare could contribute to the social side of restructuring by co-financing, together with the national authorities and the international financial institutions, a fund to extend income support for workers made redundant over a longer period, on condition that they undergo training. Since another objective of this social assistance is to help to restore steel undertakings to viability, workers from these undertakings will not be eligible for it unless the undertakings have defined a plan with this as an objective and made a commitment to follow it first.

The applicant countries and the Community share a common interest in making the implementation of this assistance a priority. The cost of international support for the social side of restructuring increases over time because of rising wages and the real appreciation of the exchange rate in the applicant countries (cf. Annex IV).

(b) Improvement of the investment climate

Even though on-going efforts to adapt the legal and economic environment concern all sectors of the economy and correspond to needs that are not specific to the steel industry and steelmaking regions, they do make a substantial contribution to resolving the latter's problems, in two ways:

- action under the first priority of Phare to create an environment conducive to investment and the adoption by the applicant countries of EU standardisation and certification requirements. This will imply identifying

and then helping address specific legal and administrative obstacles in each applicant country to foreign investment, for example, in the fields of property rights, company law, rules on competition, tax law or social legislation;

action under the second priority to develop transport, telecommunications, energy and environmental (particularly water and waste) infrastructure, possibly with assistance from the EIB, EBRD and World Bank, and to bring production standards into line with European requirements, *inter alia* on installation safety, energy efficiency and the environment, particularly emissions of pollutants into the air.

(c) Boosting competitiveness and promoting access to financial resources

The technical assistance measures supported by Phare can contribute to these objectives by means of four types of action:

- horizontal action, such as market research on the principal steel-consuming industries, with priority to analyses covering all central and eastern European countries and, if necessary, national level; further training for directors and middle management by organising courses and seminars on quality/innovation, marketing, management control, auditing and the introduction of information technologies in management;
- direct secondment of experts to steel undertakings to help them to identify measures which could boost their cash flow without requiring heavy investment, for example improvements in plant efficiency or product quality;
- assistance with the formulation of business plans defining the stages and means for restoring undertakings to viability. Existence of such plans and a commitment to keep to them will be necessary to obtain outside funding, whether own resources from the private sector in the central and eastern European countries or the Community and the EBRD or loans from commercial banks and/or from the EIB and the EBRD.
- technical assistance to improve the environmental performance and energy efficiency of the steel companies, in particular air pollution abatement measures.

In the longer term, strengthening research capability can play a decisive role in the competitiveness of these undertakings<sup>8</sup>. The possible inclusion of central and eastern European steelmakers in the fifth framework programme, which will contain more topics of considerable interest to this industry as a whole than its predecessors, could help them to target their modernisation plans more effectively.

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<sup>8</sup> In this context the European Commission has financed a major study on "The impact of the EU Enlargement towards the CEECs on RTD/Innovation and Structural Policies". The study, carried out by Coopers & Lybrand, CIRCA and C'EST, is available from the Directorate XII-AS (Strategy and Coordination). It explores options and provides practical orientation for RTD related support under prospective pre-accession aid schemes.

- Finally, the Commission could extend the most relevant existing statistical instruments in the Community to the central and eastern European countries which so wish to provide a clearer picture of investment and production capacity trends.

(d) Promoting dialogue between central and eastern European countries and the EU

Exchanges of information and concertation between the central and eastern European countries will be necessary for the definition and implementation of the restructuring assistance plan. The Community will be able to organise this dialogue and coordination by setting up, alongside the bilateral ECSC contact groups, a multilateral forum on the steel industry in central and eastern Europe. This channel of communication would link the Commission and the applicant countries. Depending on the subjects discussed, it could be enlarged to include representatives of the member states, of industry in the EU and the countries of central and eastern Europe and/or international financial institutions to exchange information and experience on progress with and financing of the restructuring process, on implementation of the accompanying social and regional measures and on market trends. The Commission could convene a meeting during the second quarter of 1998 and at least once a year thereafter. This forum should be seen as an application of a wider dialogue concerning the restructuring of industries in general.

In addition, meetings with the central and eastern European countries could be held on the occasion of the ECSC Consultative Committee, which has the advantage that workers' representatives could take part.

The new approach is in line with the new Phare policy guidelines in the framework of pre-accession assistance. The action planned will fit in with the two priorities set by Phare and, as such, will be eligible for Phare funding which implies co-financing by the applicant countries receiving the assistance and could be supplemented by EIB, EBRD or World Bank loans, as well as private sector investment.

Some of the measures proposed come under the first priority of Phare - "institution-building". This is the case, in particular, with the further improvements in the legal and financial framework and the measures concerning the approximation of legislation. As these are across-the-board measures on which considerable progress has been made already in many central and eastern European countries, the additional cost of these reforms will be relatively modest.

The other measures would come under the second priority - "investment financing" - particularly by defining integrated regional development programmes to reduce sectoral, economic and social disparities and create jobs supported by national investment promotion funds. However, since the cost of this second package of measures is expected to be high, Phare will act principally as a catalyst for funding from IFIs and private sector investment.

The EU's current financial framework runs until the end of 1999. The next financial framework, which will run from 2000-2006, which will include provisions for reinforced pre-accession assistance should allow for the continuation of these measures.

#### 4. Requirements to be met by the applicant countries

The restructuring of the steel industry will be implemented by the undertakings themselves in close co-operation with their national governments and with assistance from private sector strategic investors. For the restructuring to be a success and EU assistance to be forthcoming, the countries of central and eastern Europe will need to meet all the following requirements:

- (a) Compliance with the Europe Agreements
- (b) Compliance with the priorities specified in the accession partnerships, particularly, in the case of undertakings receiving social adjustment assistance, monitoring of the implementation of plans to restore undertakings to viability, without which the assistance would not have been granted.
- (c) Adoption of a comprehensive steel restructuring programme which should include, among others, a detailed market analysis and forecast based on macroeconomic evaluations for the national market and the neighbouring markets; an evaluation of the actual capacities of the steel installations according to community methods; possible scenarios of supply-demand in the short and medium term; description and evaluation of the measures (social, regional, environmental, financial...) which should constitute the legal framework to be used by all parties involved in the process; a definition of a clear timetable for the implementation of these measures, including possible adjustment of capacities.
- (d) Strict compliance with state aid rules, including the conditions of any extension of the grace period. In this case, all the conditions in Article 8(4) of Protocol 2 annexed to the Europe Agreements will apply, including the obligation to inform the Association Committee of all aid planned for undertakings at least two months before it is granted.

State aid for restructuring should lead to the viability of the companies concerned and must be linked to a reduction of production capacities, particularly in the hot-rolled products sector. Permanent, detailed monitoring will be introduced and the standard EU questionnaires will be used to keep investments in the steel industry transparent.

#### IV. CONCLUSION

The steel industry of the countries of central and eastern Europe faces a particular challenge to prepare for participation in the Community's single market. Drawing on its experience with the restructuring of the EU steel industry, the Commission has put together a package of measures that will support the countries of central and eastern Europe in their preparations for EU membership in this field. The measures will act as a catalyst for co-operation between the IFIs, private sector and applicant countries on the industrial aspects of restructuring. This communication also sets out the conditions that

will have to be met if EC assistance on the social and regional aspects of restructuring is to be forthcoming.

This communication should be submitted for information to the ECSC Consultative Committee, the Council and European Parliament and should form the basis for further discussions with the applicant countries in the framework of the accession partnerships, as well as with the IFIs.

On this basis, the first meeting of the forum on the steel industry in central and eastern Europe could be held during the second quarter of 1998.

**Employment coal and steel sector vs total regional industrial employment**

Total industrial employment, note 1	coal mining and steel sector, note 2	% coal and steel
Ostrava 321842	120650	37,5
Katowice 802500	348000	43,4
Hunedoara 147000	68000	46,3

**Regional concentration of steel sector employment, 1995 (persons employed)**

National steel employment, source 1	Regional steel employment	% share regional
Czech Rep 77514	Ostrava 53000	68,4
Poland 99742	Katowice 72000	72,2
Rumania 115000	Hunedoara 20031	17,4

**Steel sector employment trends and forecast, 1989 - 2005**

	1989	1995	% change	2000	2005	% change 95 vs 2005
Ostrava	65000	53000	-18	40000	30000	-43
Katowice	140000	72000	-49	45000	min 32000	-56
Hunedoara	26954	20031	-26	16900	13050	-35

sources: 1. The Steel market in 1995 and prospects for 1996, Economic Commission for Europe (UN, 1996)

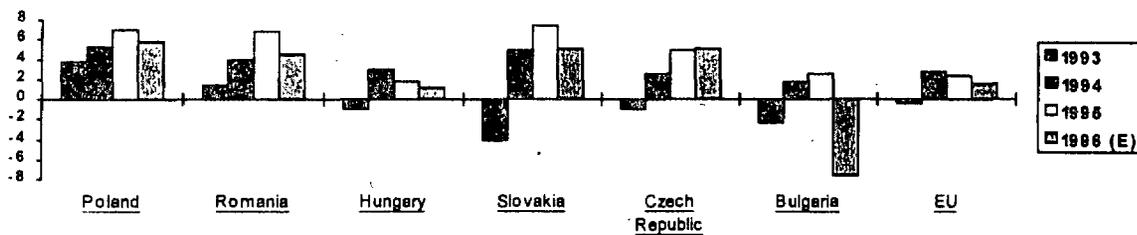
2. Except for national employment figures all other data based upon "Financing of Conversion Investments in Coal and Steel Regions of Central and Eastern Europe", Ernst & Young, 1996.

note: 1. Based on conversions of previous estimations of economic activity of population per sector resp. 1993, 1994 and 1992

2. Based on estimations of employment levels resp. 1995, 1994 and 1995

## Situation of the steel industry in the Central and Eastern European countries

### A. Annual growth of GDP (%)



#### Sources

- Central and Eastern European countries and EU: 1993-1995 figures from official national sources.
- Central and Eastern European countries and EU: 1996 figures from DG II estimates based on Commission forecasts (autumn 1996).

### B. Apparent consumption

#### 1. Crude steel

million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	15.9	11.8	3.5	11		3	45.2	111.6	
1990	9.6	8	1.9	10.3		2.3	32.1	125.7	
1992	6.0	3.4	1.0	4.9		0.9	16.2	124.7	
1995	8.8	3.6	1.7	4.7	1.4	0.7	20.9		150.5

#### 2. Rolled products

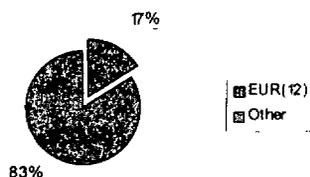
million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	12.0	9.6	2.8	8.3		2.3	35.0	100.5	
1990	7.2	6.6	1.6	7.8		1.7	24.9	113.2	
1992	4.6	2.7	0.9	3.8		0.7	12.7	112.3	
1995	7.0	2.9	1.5	3.8	1.2	0.6	17.0		135.6
2000	9.2	3.4	1.4	3.1	1.5	0.9	19.5		

#### Sources

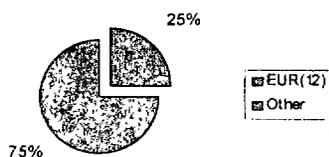
- Central and Eastern European countries: United Nations Economic Commission for Europe.
- EU: Eurostat - DGIII/C1
- Forecasts for 2000: Estimate by Unit C/I based on the various studies completed.

### C. Foreign trade trends (Sources: United Nations Economic Commission for Europe, Eurostat - Comext)

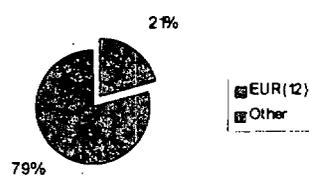
#### Exports from CEEC - 1986



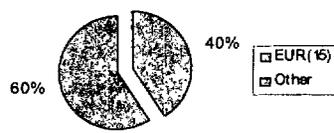
#### Exports from CEEC - 1992



#### Exports from CEEC - 1990



#### Exports from CEEC - 1995



Exports from Central and Eastern Europe to the European Union have risen in recent years, principally because the fall of the Communist bloc sharply reduced steel consumption in those countries.

Before 1992 the regional market (Central and Eastern Europe and USSR) was the main export market. Since then the Central and Eastern European countries have found other markets, inter alia the European Union market, to help them finance the extensive restructuring under way.

However, in view of the slight upswing in consumption in Central and Eastern Europe, exports to European Union countries can be considered to have peaked in 1995.

On the import side, the Central and Eastern European countries have never been major partners for the European Union. They imported around 400 000 tonnes in 1993 and 1994, rising to 800 000 tonnes in 1995.

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## D. Production capacity

In the absence of official figures for the Central and Eastern European countries, the figures in the tables below are taken from various studies for DGIII/C1.

### 1. Crude steel

million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	20.9	18.9	4.9	18.7		4.2	67.6	188.7	
1990	20.9	18.6	4.9	18.1		4.2	66.7	189.6	
1992	17.3	14	3	14.2		3.2	51.7	192.5	
1995	13	12.1	2.9	9	4.6	3.2	44.8	189.7	204.7

### 2. Rolled products

million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	14.5	11	3.2	12.5		3.5	44.7	161.3	
1990	15	10.5	3	12.5		3.5	44.5	163.6	
1992	15	10.5	3	8	4.5	3.5	44.5	172.3	
1995	12.1	10	3	8	4.5	2.2	39.8	168.3	184

#### Sources

- Central and Eastern European countries: Paine Weber/Cerna study/United Nations Economic Commission for Europe.
- EU: DGIII/C1.

## E. Production

### 1. Crude steel

million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	17.1	14.3	3.7	15.1		2.9	53.1	126.0	
1990	13.6	9.8	2.9	14.9		2.1	43.3	136.7	
1992	9.9	5.4	1.5	7.3	3.8	1.5	29.4	132.2	
1995	11.9	6.5	1.9	7.2	3.9	2.7	34.1	142.2	155.3
2000 (a)							32.7		
2000 (b)							30.1		

### 2. Rolled products

million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	12.3	10.3	2.9	11.1		3.3	39.9	102.7	
1990	9.9	6.4	2.3	11.0		2.2	31.8	117.3	
1992	5.7	3.6	1.4	5.8	3.3	1.2	21	115.3	
1995	8.9	4.6	1.8	6	3.4	2.1	26.8	122.6	134.8
2000 (a)							26.3		
2000 (b)							24.3		

#### Sources

- Central and Eastern European countries: International Iron and Steel Institute (IISI).
- EU: Eurostat.
- Forecasts for 2000: "InnoFerco" study (a = high scenario, b = low scenario).

## F. Capacity utilisation rate (%)

### 1. Crude steel

million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	81.8	75.7	75.5	80.7		69.0	78.6	66.8	
1990	65.1	52.7	59.2	82.3		50.0	64.9	72.1	
1992	57.2	38.6	50.0	78.1		46.9	56.9	68.7	
1995	91.5	53.7	65.5	80.0	84.8	84.4	76.1	75.0	75.9

### 2. Rolled products

million tonnes	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	84.8	93.6	90.6	88.8		94.3	89.3	63.7	
1990	66.0	61.0	76.7	88.0		62.9	71.5	71.7	
1992	38.0	34.3	46.7	72.5	73.3	34.3	47.2	66.9	
1995	73.6	46.0	60.0	75.0	75.6	95.5	67.3	72.8	73.3

## G. Employment

	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	159,500	230,000	62,800	177,251		36,800	666,351	474,800	
1990	131,300	185,000	48,835	172,160		39,000	576,295	384,600	
1992	105,700	155,000	21,638	101,981	14,000	26,863	425,182	369,000	
1995	99,742	115,000	15,840	77,514	13,950	26,272	348,318	286,300	323,000

#### Sources

- Central and Eastern European countries: United Nations Economic Commission for Europe.
- EU: Eurostat.

## H. Productivity : tonnes of crude steel per man per year

	Poland	Romania	Hungary	Czech Republic	Slovakia	Bulgaria	CEEC	EUR(12)	EUR(15)
1986	107	62	59	85		79	80	265	
1990	104	53	59	87		54	76	355	
1992	94	35	69	72	271	56	69	358	
1995	119	57	120	93	280	104	98	496	483

#### Sources

IX/III/C/1 estimates.

**Economic and social conversion measures for regions  
highly dependant on the steel sector**

**Introduction**

The Communication sets out the purpose of these measures which is, on the one hand, to create the conditions to attract strategic investors required for effective restructuring and on the other hand to tackle social and economic consequences resulting from inevitable redundancies. The rationale for such measures lies in a combination of the severity of the regional problems caused by the decline of the steel industries, and the fact that most areas affected do not have the capacity to regenerate themselves from within.

This annex is primarily concerned with the identification of possible measures to adopt viable social and economic conversion programmes to mitigate high unemployment. Given the number of job losses up till now, and additional losses foreseen by the year 2000, urgent action is necessary in order to generate alternative economic activities which will provide employment rates in the regions concerned.

The measures identified still need to be elaborated upon, and especially being discussed with national authorities and local intermediaries, before figures regarding the financial implications and subsequent financing arrangements can be presented.

**ECSC conversion scheme experiences**

In a study financed by the Commission and carried out by Ernst & Young (1996), an analysis is presented concerning the question whether ECSC experiences, addressing the conversion of affected regions in the EU, provides useful guidance for the problems faced in the CEEC. The method presented in the study involves:

- (1) establishing the conditions for creating new job opportunities through support for new start-ups, existing SMEs and measures to attract inward investment;
- (2) retraining workers so that they acquire the skills needed for existing and new employment opportunities;
- (3) providing the advisory and financial support needed by redundant workers to enter self-employment;
- (4) transitional income support for redundant workers.

These experiences could play an important role in helping CEEC regions to diversify, but that the EU model would need to be modified to suit local circumstances.

A prerequisite for the measures to be successful, is the preparation of regional development plans. In these plans the regions should identify their specific comparative advantages and disadvantages and thus help them to use resources more effectively.

In the plans recommendations should be presented focusing on the modernisation of the economic environment (stimulation of local initiatives in growth sectors, development of industrial service centres, promotion of innovation and the introduction of new technologies). The plans are the most important because they force the measures to be effectively targeted and supported by a broad partnership.

To assist the regions in preparing their development programme the regional planning experience in the European Commission and the Member States should be made accessible for the applicant countries.

## Measures proposed

The following measures are proposed for further elaboration.

### Measure 1: Establishing the conditions for creating new job opportunities

#### *Measure objective*

The aim of this measure is to establish the conditions for creating new job opportunities especially through expansion of existing local firms and inward investment.

#### *Measure description*

- Efforts should be made at national, regional and local level to create the conditions under which local firms are prepared to engage additional employees (fiscal and legal arrangements, investment support, etc.,)
- Whenever training is required, measure 2 will be applied.

### Measure 2: Retraining for other existing and new employment opportunities

#### *Measure objective*

The aim is to enable redundant workers to acquire new skills necessary to find a job in the new economic environment. The participation in this scheme will be the condition for eventual income support.

#### *Measure description*

- Enterprises would receive technical assistance to help identify the impact of restructuring on workers, develop labour redeployment plans, public information materials, and promote social dialogue.
- Labour Redeployment Services: local public and private agencies would be given contracts to deliver in-depth labour redeployment services to displaced workers. (for example relocation services, retraining, small business assistance)

### Measure 3. Support for self-employment and business start-ups

#### *Measure objective*

The measure aims to create jobs through contributing to economic reconversion in the affected regions. It should be open to all citizens in the region and not only to workers previously employed by the steel plants. The measure will also contribute to making self-employment a more realistic option for workers directly affected by the restructuring.

#### *Measure description*

The European Union and its Member States have developed a wide range of instruments to support the creation of micro-enterprises and promote the growth of small companies. Experience has shown that the most effective way to achieve the objectives of the measure is the use of financial intermediation techniques. As an example, the provision of loan finance to micro enterprises should be on a progressive basis, funds normally being released in tranches as borrowers demonstrate their ability to repay.

Close co-operation with the EU's financial institutions (EIB, EIF) other International Financial Institutions and the local financial sector is vital for the success of this measure. Together with these institutions PHARE could aim to cofinance the following activities:

- establish regional seed capital funds with private participation

- give loans via the local financial sector (for example the EIB's SME facility)
- grants for business consultancy services, management training and due diligence costs for seed capital funds.

#### Measure 4: Transitional income support

##### *Measure objective*

The aim is to facilitate enterprise restructuring by providing financial support to affected workers for a limited period of time under certain conditions. This would enable them to leave their current employment and prepare for alternative employment. The measure provides the ultimate fall-back position and is conditioned by an extensive set of safe guard measures under full responsibility of the authorities concerned.

##### *Measure description*

- In all the applicant countries there are social security systems that will provide income support for a certain time after redundancy.
- The income support would be made conditional on the participation of the workers in retraining programmes. This condition would not apply to workers approaching the normal retirement age and to workers becoming self-employed. For workers in this latter category, consideration could be given to granting lump-sum payments (representing the capital equivalent of the ongoing income support which would otherwise be paid) to cover the start-up costs of the business.
- International Financial Institutions are planning similar loan financed programmes (a second best solution to grant financing) in the CEEC (f.e. IDA, World Bank) countries. Close co-ordination between donors is therefore required.
- The support will be provided by an intermediary fund financed by the national authorities, private companies, IFI and the EU through PHARE.

The main variables to be defined are the period of income support, conditionality and cofinancing from sources other than the Community budget, like national governments and companies concerned. Moreover, a precondition for support will be the presentation by the enterprises concerned of a plan consisting of measures to be taken in order to (re)gain financial viability as well as guaranties that the plan will be carried out accordingly. As far as the measures described above imply funding by the national authorities or lower levels of authorities in any form whatsoever, it has to be noted that these contributions shall be made in accordance with the relevant State aid provisions of the Europe Agreements and their Protocol 2 on ECSC products".

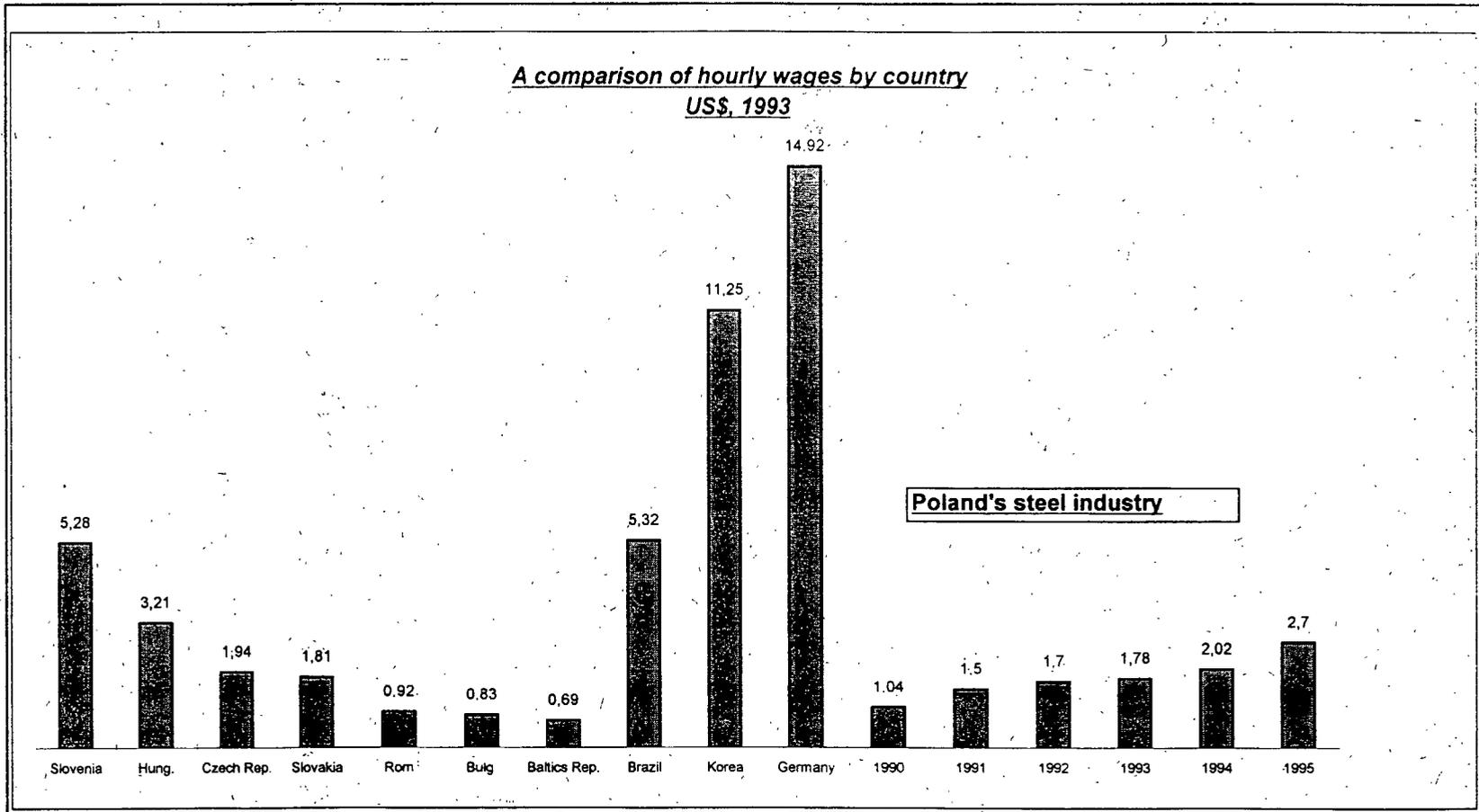
##### **Role of intermediaries**

Experience gained in the ECSC conversion schemes proves that suitable local structures, to be used to support and execute measures, are a key factor for success. The ECSC scheme has mainly been operated on a decentralised basis through a network of intermediaries in EU Member states. At the same time integrated programming, in order to align ECSC activities closely with ERDF programmes, was installed.

Within the CEEC intermediaries should be identified, or specially created, being able to identify in close co-operation which authorities and firms concerned, the potential

beneficiaries of the measures proposed. Moreover they will bear the responsibility to implement the measures and monitor the execution.

Lessons learned from regional development strategies already carried out in the CEEC, prove that business support organisations and development banks are essential for the development of the private sector. The start-up of SMEs requires substantial support for which traditional institutions are (mostly) not equipped.



## Annex V.1: Background elements on the European Union's steel industry and its restructuring process in the last fifteen years

### European Union steel industry

The European Union steel industry represents 20% of worldwide production of crude steel. The EU is a net exporter of steel products (in 1996, its export surplus amounted to 11 million tonnes). To achieve its current competitiveness, the EU steel industry has undergone profound restructuring since 1980, which has resulted in a reduction of capacities by 60 million tonnes and a reduction of the workforce employed in the sector from 900,000 to 300,000 in 1996.

Recently, in the period 1994-1995, 40,000 jobs were suppressed (i.e. a reduction of 12.5% as compared with 1993) following, in particular, further reductions in overall capacity under the Community programme<sup>1</sup> aimed at increasing the competitiveness of the European steel industry.

There are currently some 280,000 workers in the steel sector. The significant reductions in employment in the last fifteen years have been accompanied by significant levels of public aid, estimated at 45 billion ECU. Aid has been granted mainly by the Member States, but also by the Community through its social and regional interventions. The latter have been channeled through the following principal instruments:

#### ***1. ECSC Readaptation aid (legal basis: Article 56 of the Treaty on the European Coal and Steel Community)***

This type of aid has been granted since 1954 for workers in the coal and steel industries affected by industrial restructuring. In particular, between 1980 and 1995, a total Community contribution of over 1.4 billion ECU has been committed in favour of some 545,000 employees in the steel sector (and of around 2 billion ECU for employees in the coal sector), through measures in support of early retirement, income support for workers made redundant, internal transfer, external deployment and vocational training.

In order to help cofinance the additional social costs of further restructuring which the Commission was urging upon the steel industry to increase its competitiveness, a supplementary readaptation aid programme of 240 MECU has been set up, of which 206 MECU were disbursed in the period 1993-1995.

The budget for ECSC readaptation aid in the steel sector for 1997 is in the order of 51 MECU and of 37 MECU for 1998.

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<sup>1</sup> - Communication from the Commission to the Council and to the European Parliament of October/November 1992: "Vers le renforcement de la compétitivité de l'industrie sidérurgique: nécessité d'une nouvelle restructuration" (SEC(92)2160 final);  
- Communication of the Commission to the Council and to the European Parliament of 25 October 1994: "Restructuration sidérurgique communautaire (bilan et conclusions)" (COM(94)466 final)

It should be noted that since 1995, vocational training and measures targeted at the unemployed have been removed from the ambit of Art. 56 ECSC to that of the European Social Fund (through measures under Objectives 3 and 4).

Finally, it should also be noted that since 1954, in addition to its readaptation aid, the ECSC has granted loans (provided with an integrated interest rebate) contributing to the reconversion of regions whose steel industry is undergoing restructuring. Eligible projects must either *a*) increase the production, reduce the production costs or facilitate the marketing of the Community's coal and steel products, or *b*) facilitate the productive re-employment of workers made redundant in the coal and steel industries of the Community. This activity will be terminated at the end of 1997.

## **2. Community Initiatives RESIDER I and RESIDER II**

Resider is intended to accelerate economic conversion concentrating on the most seriously affected steel areas. Priority is given to improving the environment, to promoting new economic activities and to the development of human resources.

Resider II, running from 1994 to 1997, has a budget of 500 MECU (as compared with 300 MECU for Resider I in 1988-1991). Rates of assistance for each benefiting steel area are decided in conformity with the Structural Funds Regulations, in the context of a coherent regional strategy and with a clear statement of development and conversion objectives. There are currently twenty-seven operational programmes, mainly for steel areas in France, Germany, Belgium and the United Kingdom.

## **Annex V.2: The relative importance of the steel industry in the associated countries**

### ***General overview***

The steel industry of the associated countries accounts for approximately 4% of the worldwide production of crude steel. The area is a net exporter of steel products. The exports surplus in steel products amounted to 10 million tons in 1996, of which 4 million tons originated in trade with the EU. This reflects, in particular, the increase of exports from these countries to the EU since the collapse of their previous market, namely the regional market constituted by the CEECs and the FSU. However, export to the EU are considered as having reached their ceiling in 1995 given that an improvement in the internal demand in these economies has been noted in the last two years.

Although the steel industry only represents, on average, some 3% of employment and 8% of the industrial production in the associated countries, in some regions the steel and coal industry combined make up for around 37 to 46% of industrial employment. The largest steel mills are concentrated in an industrial zone of around 5 to 6 million inhabitants located in the border area of Poland, the Czech Republic and Slovakia. This region represents 40% of the total employment in the steel industry of the associated countries.

On average, in the period 1990 to 1995, capacities for crude steel have already decreased by 22 million tons (i.e. by a third). However, capacities for finished products have not decreased in the same proportion. In this period, employment has been reduced from around 580 000 to some 350 000 employees. Based on the working hypothesis that productivity in the associated countries reaches, by 2002, the Community productivity as it stood in 1995, it is estimated that a reduction of a further 276 000 jobs would take place between 1995 and 2002 (this figure applies to all of the CEECs).

### ***The situation in the most important steel producing associated countries***

Whereas the steel sector represents a major industrial activity in Poland, Romania, the Czech Republic and Bulgaria (cf. below), there is hardly any steel industry in the Baltic States and this sector is comparatively small in Hungary. Slovenia, where the steel industry has fairly modern plants for special steels, faces no major restructuring problems. The Slovak Republic may be seen as a particular case, as it only has one major company which is rather competitive.

#### ***Poland***

The steel industry represents around 5% of industrial sales and 6% of exports. Employment in the sector amounts to 90-100 000 workers (i.e. 3.1% of total industrial employment), mainly in Silesia (where it represents 40% of industrial employment). In the last few years, exports have represented nearly 30% of production, of which one third are destined to the EU market.

A restructuring programme was adopted in 1992, involving reductions in capacity. In this reference year, crude steel capacity amounted to 17,5 million tons. The initial objective was to reduce capacities to the level of 11,7 million tons by the year 2002.

However, following increased internal demand, the objective of 13,4 million tons has been set for 2002. Equally, reductions in the capacities for flat products have been revised upwards by the Polish authorities in anticipation of a projected growth of 39% in the demand for these products between 1995 and 2002.

The privatisation and restructuring processes have been delayed, thereby aggravating the social and regional problems at stake (employment is currently estimated at somewhere above 90 000 employees, but should be reduced, according to the Polish authorities, to some 45 000 employees by 2002).

### ***Romania***

The steel industry represents around 11% of industrial sales and 18% of exports. Employment in the sector amounts to 115 000 workers (i.e. 4,5% of total industrial employment), mainly in the industrial areas of Galati and Hunedoara, where it accounts for respectively 40% and 18% of total industrial employment. In the last years, exports have represented 35-40% of production, of which one third was destined to the EU market.

In the context of the restructuring of the Romanian steel industry, a reduction of capacity from 18,6 million tons to 11,9 million tons is foreseen in the period 1990-2002. In the same time, it is estimated that employment should be reduced from 185 000 to 45 000 workers.

Although some rationalisation has been taking place (e.g. between 1990 and 1995, crude steel capacities have been reduced by 6,5 million tons, while employment has decreased from 185 000 to 115 000 workers), the restructuring process has been significantly delayed. The reductions of capacity are particularly insufficient in the area of rolled products, given that capacities are currently estimated at 10 million tons, whereas consumption is only in the order of 3 million tons yearly.

### ***Czech Republic***

With a workforce of 77000 the steel sector which essentially consists of three large integrated firms is rather important for the economy. From a total production of 7,2 mio. tonnes of crude steel 1,4 mio. tonnes of finished products are exported to the EU. Despite positive first steps the pace of privatisation was reduced and a considerable part of the company's shares are still in state ownership. Since an accelerated restructuring will probably not take place before the completion of privatisation considerable efforts have still to be undertaken in this sector.

### ***Bulgaria***

Despite its decline in recent years, the Bulgarian steel industry is still one of the country's most important sectors, providing 27% of the GDP and more than 50% of total industrial output according to the "National Programme for the restructuring of the Steel Industry" presented in October 1997 by the Bulgarian Government. However, due to the low level of domestic consumption, more than 75% of production is exported, of which more than a half is directed to EU markets. Since both privatisation and profound restructuring did not take place until recently, first adjustment steps are expected for 1998.

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