

# COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL  
AND THE EUROPEAN PARLIAMENT

FRESH IMPETUS FOR RESTRUCTURING THE  
STEEL INDUSTRY IN THE COMMUNITY

## **FRESH IMPETUS FOR RESTRUCTURING THE STEEL INDUSTRY IN THE COMMUNITY**

### **INTRODUCTION**

Since the Council meeting on 22 April 1994 further difficulties have emerged. They are casting doubt over the credibility of the restructuring plan for the Community steel industry and call for urgent political discussions to explore ways of giving fresh impetus to the restructuring which is still vitally needed.

The overall approach of the restructuring policy endorsed by the Council in its conclusions of 25 February 1993 mapped out two parallel courses of action, one being formulation of a precise and sufficiently extensive capacity shedding programme by the industry, the other establishment of a package of supporting measures by the Commission and/or the Council to smooth the way for this programme. All the supporting measures were introduced during 1993. On the other hand, the industry has yet to submit the full programme of further reductions in capacity which it must formulate.

### **I. COUNCIL MEETING ON INDUSTRY ON 22 APRIL 1994**

At the abovementioned meeting the Council concluded, from the intermediate review by the Commission, that the minimum capacity reduction agreed by all concerned (between 19 and 26 million tonnes of hot-rolled products) had not been attained.

Nevertheless, the Council agreed that the accompanying measures should be extended temporarily, even though the original target date of 30 September 1993 had passed and the reductions had fallen some 8 million tonnes short of the minimum target of 19 million tonnes. This was justified by the industry's assertions that the extra capacity reductions necessary could still be produced, primarily from the private sector in Italy (between 5 and 6 million tonnes).

Under these circumstances, the Council agreed to defer conclusive discussion until submission of a further review by the Commission in September. The Council adopted this position bearing in mind the commitment by all the parties concerned to maintain strict discipline on State aid, in accordance with the joint declaration by the Council and the Commission of 22 December 1993.

## II. FURTHER DIFFICULTIES SINCE THE COUNCIL MEETING ON 22 APRIL 1994

### 2.1 Progress with aid pursuant to Article 95

2.1.1 The Commission has noted certain problems with the monitoring exercise. In particular, most of the initial replies from the Member States concerned did not contain all the information requested. As a result, the Commission's first report to the Council was incomplete. Most of this information has now been received and a supplementary report is about to be submitted to the Council. A number of points raised in the reports will require further examination by the Commission.

2.1.2 There is also renewed uncertainty about the fate of EKO-Stahl, since RIVA has abandoned the takeover authorized by the Council in December 1993.

These uncertainties stem primarily from the fact that in the meantime EKO is continuing its operations even though this is virtually impossible without public support. The Commission immediately requested the German Government for detailed information on the financial arrangements applied by the Treuhandanstalt to enable EKO to remain in operation. The Commission will examine the information supplied by the German Government, in accordance with the Aid Code procedures.

Nevertheless, the fundamental problem remains the future of the undertaking. To clarify this, a fresh viability plan will be needed; the German authorities must send it to the Commission as soon as possible.

### 2.2 Private sector in Italy

The closures announced by the Italian industry under the Decree on restructuring and the associated implementing regulation notified by the Italian Government must play a key role as they will make it possible to draw much closer to the minimum capacity-shedding target of 19 million tonnes. The Commission could not authorize the concomitant aid in its entirety without applying Article 4(2) of the Aid Code as described in the Annex. This matter must be referred to the Council urgently.

### 2.3 Klöckner

In the mid-1993 agreement, Klöckner gave a commitment to the Commission providing for the definitive closure of 500 000 tonnes of wide hot-rolled strip capacity by shutting down one blast furnace by 31 August 1994 at the latest, followed by a further effort to contribute to the restructuring plan in the form of synergies with other undertakings.

In a cooperation agreement proposed with Sidmar (Arbed), the partners have retracted the closure of Klöckner's blast furnace and the concomitant reduction in hot-rolling capacity, but offer alternative solutions. The Commission is considering these. It will not accept any alternative offered by the industry unless it would yield closures at least equal to those originally planned.

Also, by the end of July the Commission should adopt a final decision on Klöckner's new financial structure, on which the procedure provided for by Article 6(4) of the Aid Code has been initiated.

### **III. ASSUMING RESPONSIBILITY FOR GIVING FRESH IMPETUS TO THE RESTRUCTURING PROCESS**

In view of the abovementioned difficulties, the Commission considers it necessary to reach a new consensus within the Council and to remind the industry of its key responsibility in order to seize the last chances to complete the essential restructuring.

#### **3.1 Target for reduction of overcapacity**

In view of the current problems, the Commission opposes any attempt at downward revision of the minimum closure target (19 million tonnes). Any such approach would be economically unfounded and politically unacceptable, since it would produce no lasting improvement in the industry. The improvements beginning to be seen in the economy and the favourable climate on the world market are still too little and too weak to support any such assessment.

What is more, there is a risk that this could leave the restructuring process unfinished, as happened with several similar exercises in the past. The Commission considers that this type of error must not be repeated, since it would soon lead to the same drama again.

#### **3.2 Sharing responsibility**

The Commission confirms its support for the approach originally agreed with all concerned. One key component in this approach is for the industry to identify the additional closures necessary by 10 September at the latest, in time for the next Council meeting. Neither the Commission nor the Member States can relieve the Community steel industry of this responsibility. The Commission and the Council have already provided the fullest support possible to enable the industry to discharge its responsibilities.

### 3.2.1 Private-sector industry in Italy

In view of the significant scope for closures revealed by the recent applications from the undertakings concerned, the Commission believes that in this case the important thing is to seek solutions yielding the maximum reduction in capacity compatible with the Aid Code, which could be achieved by applying Article 4(2) of the Aid Code in accordance with the conditions described in the Annex.

### 3.2.2 Other private industry

Apart from the potential closures planned and to be identified clearly by the private sector in Italy, other private producers remain responsible for making the further reductions in capacity still needed. Consequently, they must make good use of the next few months so that in September, in time for the next Council meeting, the Commission can confirm that the restructuring process has been completed and that every opportunity has been taken to shed capacity by rationalization, synergies, etc.

In particular, the Commission remains prepared to authorize any closure agreements on the same conditions as it applied to the agreements pursuant to Article 53(a) of the ECSC Treaty.

### 3.3 Conclusions

The Commission stresses that the minimum closure target of 19 million tonnes must be maintained. Failure by private producers to submit a programme of further capacity reductions will make it extremely unlikely that this target will be met.

Nevertheless, in view of the potential closures announced by the Italian authorities the Commission draws the Council's attention to the need to apply Article 4(2) of the Aid Code in accordance with the conditions described in the Annex. This would make it possible to draw closer to the closure target set, while leaving the task of making the further reductions still needed to the private industry.

Meanwhile, the Commission will maintain the accompanying measures. However, should it find in September that still no sufficient commitments have been made on closures, it would be forced to take the necessary action as regards the future of the accompanying measures currently in force.

In particular:

it would not extend the measures taken to stabilize the market, on the basis of Article 46, beyond the fourth quarter of 1994;

it would take the necessary action as regards the external measures, taking account of the Council's conclusions;

it would definitively withdraw the general authorization for agreements based on Article 53(a), which would no longer be applicable;

as regards the social measures for the steel industry, the Commission plans to maintain them, subject to the available funds, to support the closures still possible.<sup>1</sup>

The Commission calls on the industry to assume its responsibilities and make its contributions so that the restructuring essential for a lasting improvement and for strengthening the international competitiveness of the Community's steel industry can be completed. The Commission also stresses the important role which the Member States must play in this process.

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1 The future of the RESIDER II programme, which the Commission is about to adopt to support the conversion of regions heavily dependent on the steel industry, will not be affected by the decisions on the future of the restructuring plan.

**Italian Private Sector**

**Recent developments and application of Article 4(2) of the Steel Aids Code**

According to the latest information available, the Italian authorities have received applications from 68 companies to close capacities in the range of:

Reinforcing bars	more than 2 million tons
Merchant bars	2 million tons
Wire rod and beams	up to 1 million tons
Heavy plate, coils and strip	around 1.5 million tons

However, in view of continuing uncertainties on the firmness of these intentions, the Italian government's provisional estimate is a reduction of at least 5 million tons of hot-rolling capacity. In addition capacity reductions of up to 5 million tons in liquid steel and of 250 000 tons in cold-rolled strip are envisaged.

According to the Italian authorities, among these applications it is estimated that around 50% have been submitted by companies which are apparently not linked to other ECSC undertakings. These companies would totally cease their ECSC activities and would therefore be eligible for closure aid in accordance with Article 4(2) of the Steel Aids Code. The remaining 50% of the companies apparently have such links. The Italian authorities wish to provide financial assistance towards all these closures to facilitate these capacity reductions, otherwise the planned level of closures will not be achieved. In the case of closures of companies with links to other ECSC undertakings, the Italian authorities propose assisting only the closure of entire sites and not parts of them. It is envisaged in such cases that the closing site(s) would be put into liquidation and the remaining site(s) would become a separate new legal entity so that there would be no linkage between the aid beneficiary and other steel undertakings.

In order to meet concerns relating to the application of Article 4(2), which aims at avoiding spill-over effects from the closure aid on the steel activities that continue, the Italian authorities have undertaken that those undertakings who close sites but remain in ECSC activities in other places would not make any increase in capacity, except that arising from productivity improvements, for at least five years. They have also provided assurances that any closure aid granted would only be as prescribed in the second paragraph of Article 4(2) of the Code.

In the light of this information it is clear that around half of the companies involved, representing a substantial but as yet undetermined proportion of the estimated total capacity reduction of at least 5 million tons, have links with other ECSC undertakings. It is also clear that these companies are unlikely to contribute towards the capacity reductions without aid, which would jeopardize the objective of the restructuring. The Commission recognizes that these closures of sites of undertakings, as envisaged under the draft Italian legislation, would facilitate the attainment of significant capacity reductions in the Italian private steel sector which would provide a major contribution towards the overall restructuring and enable the Community to move closer towards its target of an overall reduction of at least 19 million tons in the Community's hot-rolled capacity. However, in order to meet the requirements of Article 4(2) of the Steel Aids Code, any linkage between the closing companies and other steel undertakings that continue to operate must be removed.

The Commission would therefore only be prepared to accept such an approach provided that at least the following conditions are fulfilled.

- (a) each individual case should, in accordance with Article 6(1) of the Code, be the subject of prior notification to the Commission;
- (b) the other Member States should be consulted by the Commission in accordance with Article 6(3) of the Code before each decision is taken;
- (c) closure aid should only be granted within the limits laid down in the second paragraph of Article 4(2) of the Code;
- (d) the closing site(s) and the remaining site(s) should be allocated to distinct legal entities, which are run independently;
- (e) there should be no increase in the remaining steel capacity of plants in which the aid beneficiary has a controlling interest, except that arising from productivity improvements, for at least five years starting from the date of payment of the closure aid or the date of closure, whichever is the later;
- (f) closed installations must be scrapped;
- (g) there should be no spill-over of aid between the closing part of the undertaking and the part that remains in operation;
- (h) there should be strict and continuous monitoring (e.g. to ensure in particular that the capacity limitation requirement is respected, no spill-over of aid etc.).



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