

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(94) 466 final

Brussels, 25.10.1994

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

RESTRUCTURING THE COMMUNITY STEEL INDUSTRY:

FINAL ASSESSMENT AND CONCLUSIONS

RESTRUCTURING THE COMMUNITY STEEL INDUSTRY:

FINAL ASSESSMENT AND CONCLUSIONS

A. BACKGROUND

The dire financial situation of the vast majority of steel undertakings since the end of 1991 in the wake of the economic recession which gave rise to significant production overcapacity the likelihood of which had already been forecast in the General Objectives for Steel drawn up in 1990 prompted all the Community steelmakers to ask the Commission to take the necessary measures to deal with the sector's difficulties.

In the autumn of 1992 the Commission updated the scenarios for 1995 drawn up in 1990 and made the diagnosis, after consulting first the industry and then Member States' experts, that the foreseeable production overcapacity for 1995 would be between 19 and 26 million tonnes per annum (MT/a) of hot-rolled products.

This resulted in the adoption by the Commission, the Council and the Community steel industry between November 1992 and February 1993 of a restructuring programme based on two cornerstones:

- (i) the presentation by the industry before 30 September 1993 of a sufficient and credible programme of capacity reductions representing between 19 and 26 MT/a of hot-rolled products for the period 1993-95; these capacity reductions were to be notified to Mr Braun, an independent expert whom the Commission and the Council asked to carry out an exploratory mission in November 1992;
- (ii) the adoption by the Commission and/or the Council of a package of flanking measures to facilitate the restructuring process, namely:
 - new social measures with an allocation of ECU 240 million over three years to offset part of the social costs involved in the closures;
 - financial arrangements (under Article 53(a) of the ECSC Treaty) to enable the undertakings to help cover part of the costs of closures;
 - production and delivery guidelines (under Article 46 of the ECSC Treaty) to help maintain the stability of the internal market;
 - external measures to ward off imports from certain third countries.

On 25 February 1993 the Council endorsed this approach and encouraged the Commission to continue with its efforts, stressing that the implementation of the flanking

measures was dependent on the establishment by the industry of a credible programme to reduce capacity by at least 19 MT/a of hot-rolled products.

B. PROGRESS MADE

I. CAPACITY REDUCTIONS

*** 1993: Impact of State aid**

In 1993 the non-subsidized undertakings did not identify any more capacity reductions than the 5.8 MT/a of hot-rolled products notified to Mr Braun in 1993; their main argument was that the restructuring efforts of the undertakings receiving State aid were as yet unknown. These undertakings (CSI, Sidenor, Ilva, Freital, EKO-Stahl and Siderurgia Nacional) had requested State aid to improve their situation and in return had to offer adequate capacity reductions, while also taking into account the serious market situation which was adversely affecting the vast majority of Community steel undertakings.

It was not until 17 December 1993 that the Council gave its assent to the six State aid cases in question, thus postponing the date for the presentation of the closure programme until 21 March 1994.

*** 1994: Still insufficient progress**

At the Industry Council meeting on 22 April 1994, the report submitted by the Commission on the progress with the restructuring of the steel industry showed that only 11.2 MT/a (5.4 MT/a of closures concerning undertakings which had requested the application of Article 95 of the ECSC Treaty for the authorization of public aid, and 5.8 MT/a notified to Mr Braun) had been identified, compared with the minimum closure target of 19 MT/a.

Meanwhile, the withdrawal in May 1994 of the Italian partner originally envisaged as a purchaser in the context of the privatization authorized in December 1993 for EKO-Stahl resulted in the reopening of negotiations to find a new buyer. These were stepped up at the end of the summer: the solution envisaged in the new EKO-Stahl dossier would not make any significant changes to the overall capacity reductions as compared with the figures quoted above.

An opportunity for making significant progress towards the objective emerged last spring: an additional reduction of some 5 MT/a of production capacity of private-sector Italian steelmakers funded by national closure aid.

At the meeting on 22 June 1994 the Commission informed the Council that there was a definite possibility of achieving additional capacity reductions and explained the conditions it thought should be imposed to ensure that the closure aid to be granted by

the Italian Government would be compatible with the Aid Code: the vast majority of Member States backed the Commission's proposals provided the conditions were made even more stringent. In the summer the Italian Government established the legislative framework (Law and implementing Regulation) for granting the closure aid. The Commission was notified of this framework so that it could verify that it was compatible with the Aid Code. It was authorized on 19 October 1994.

The Italian Government now puts the closures achievable by the Italian industry at 5 MT/a of hot-rolled products at most.

The Commission will examine each individual case to verify the compatibility of the aid to be authorized with the Code and will carry out monitoring to ensure full compliance with the conditions imposed during the period in which the closures are carried out. The exact impact on the capacity reductions will not be known until the end of November.

II. FLANKING MEASURES

Starting in January 1993 the Commission introduced the various flanking measures requested by the industry and supported by the Council, the last measure, in autumn 1993, being the authorization of framework agreements (Article 53(a) of the ECSC Treaty) for the joint funding of capacity reductions in three categories of steel products.

In the spring of 1994 the Commission established another flanking measure, namely very strict monitoring to periodically verify compliance with the conditions imposed by the Council and the Commission when authorizing the six cases of State aid in December 1993.

Throughout the restructuring process the Commission has therefore endeavoured to create the conditions needed by the industry to work out and submit an overall capacity-reduction plan necessary and sufficient to bring about a lasting improvement in the sector.

At the most recent Council meetings, and in particular on 28 September 1994 (see Annex 1 for the conclusions) the Commission and the Council reminded the industry that the deadline for the submission of capacity-reduction plans had been extended, for the last time, until the November Council meeting and the fate of the flanking measures would be decided then.

III. FINAL ASSESSMENT

The industry has not yet submitted an adequate capacity-reduction programme, and the capacity reductions identified so far total 16.2 MT/a of hot-rolled products (see Annex 2):

they are therefore even below the lower end of the range of 19-26 MT/a agreed at the end of 1992 with the industry and the Council. However, the flanking measures still apply.

C. UPDATED ASSESSMENT OF OVERCAPACITY

Following an improvement in the economic outlook in the spring of 1994, the opinion was expressed that the abovementioned overcapacity range was no longer realistic and that the minimum target of 19 MT/a should be abandoned. The Commission has therefore updated its diagnosis for 1995 and has come to the following conclusions:

I. INTERNAL DEMAND

Internal demand for steel in the Community in 1993 fell considerably, with apparent steel consumption declining by 14%. A tentative recovery began towards the end of 1993 and has gradually gained ground so that a definite increase can be expected in 1994 and 1995. The estimates for 1994 as a whole indicate an increase in consumption of around 5%. Even if growth is much more significant in 1995 it is unlikely that the 1992 levels will be attained by then: nevertheless, this possibility has been taken into consideration to estimate the level of internal demand for steel in 1995.

II. EXTERNAL TRADE BALANCE

External demand was very buoyant in 1993 and the first half of 1994. Exports of long products to China at the beginning of 1993 followed by exports of flat products, in particular to the United States, were the main features of this trend. In 1993, especially in the first half of the year, imports from third countries fell considerably with the result that the net balance of trade was exceptionally good in 1993, although it has already deteriorated somewhat in 1994. This phenomenon should be regarded as cyclical; nevertheless, in 1995 we can expect a slight improvement (1-2 MT) compared with the balance of 8 million tonnes recorded in 1992.

III. OVERCAPACITY IN 1995

The production needed to cover internal demand and the abovementioned external balance forecast for 1995 is therefore about 116 million tonnes, corresponding, on the basis of the utilization rates calculated in conjunction with the industry for each type of installation, to a necessary capacity of around 153.5 million tonnes. According to the last survey carried out in 1994, capacity in the Community in January 1993 totalled 172.5 million tonnes. Consequently, there is a medium-term structural overcapacity of at least 19 MT/a of hot-rolled products, thus confirming overall the estimates made in November 1992 in conjunction with steel industry and Member States' experts: and this does not include the 11.2 MT/a of closures already identified.

D. CONCLUSIONS

The conclusions that can now be drawn concerning each of the two cornerstones of the restructuring programme for the Community steel industry can be summarized as follows:

I. CAPACITY REDUCTIONS

The target of a minimum level of capacity reductions of 19 MT/a has not been achieved, because the industry has failed to submit an adequate capacity-reduction programme.

II. FLANKING MEASURES

As already stated by the Commission and agreed at the Council meetings in June and September there is no longer any reason to maintain the bulk of the flanking measures decided upon at the Council meeting of 25 February 1993. In practical terms this calls for the following decisions and action:

1. Measures to stabilize the internal market

The Commission will not extend beyond the fourth quarter of 1994 the market-stabilization measures implemented under Article 46 of the ECSC Treaty: the economic recovery is now such that the quarterly guidelines by product are no longer necessary and the steel undertakings should be capable, on the basis of the overall six-monthly indications of the forward programmes for steel, to decide individually their production and delivery strategies for the Community market.

2. Structural measures

The Commission concludes that the framework agreements authorized pursuant to Article 53(a) of the ECSC Treaty have become superfluous in the absence of firm proposals from the industry.

3. Social support measures

Subject to the budget funds available, the Commission will maintain the measures to help cover the social costs of the closing down of installations to take place before the end of 1995. However, it does not propose to increase the allocation beyond the

ECU 240 million originally earmarked. The applications submitted by the Member States so far amount to ECU 185 million.

4. External measures

- The Commission will extend the system of prior surveillance established back at the end of the 1970s independently of the current restructuring process;
- The Commission will not extend beyond 1995 the system of rapid statistical surveillance (after the event) which the vast majority of Member States have been unable to operate effectively;
- In the light of the decisions by the Commission and the Council in July 1993, the Commission does not propose to extend for 1995 the tariff quotas negotiated with the Czech and Slovak Republics for a number of steel products; however, it stresses the need to keep a close watch over the trend in trade in this sector;
- In accordance with the mandates recently given by the Council, the Commission is negotiating with Russia, Ukraine and Kazakhstan quantitative restrictions for some of their steel exports in 1995 and 1996.

5. Monitoring of State aid

The Commission will continue its present monitoring exercise to ensure strict monitoring of the State aid authorized in December 1993, and it expects the Member States to honour their undertaking to avoid any new requests for authorization of State aid.

It is therefore the responsibility of the Community industry to complete the adaptation of production structures to the trend in demand by its own means.

STEEL INDUSTRY - RESTRUCTURING OF THE EUROPEAN

STEEL INDUSTRY - STATE AID

INDUSTRY COUNCIL CONCLUSIONS

The Council heard an oral report from Commissioner Bangemann on the current situation as regards the programme for reducing the production capacities of the European steel industry and agreed:

- to extend the flanking measures which it had decided to implement on 25 February 1993 (and renewed on 21 September 1993 and 22 April 1994) until the date of its next meeting;
- to hold a conclusive discussion of this item at its next meeting when the Commission should be in a position to submit a definitive report on the restructuring plan;
- to remind the non-subsidized industry of its responsibility in making an extra effort to attain the minimum closure level of 19 million tonnes;
- that if the capacity reduction programme failed, the flanking measures for the restructuring plan would be abolished, as provided for in the Commission's communication to the Council of 21 June 1994.

Pending the Commission's second six-monthly report on the monitoring of official aid, the Council also heard a statement by Commissioner Van Miert reporting on the State aid situation and held a wide-ranging discussion of the subject.

CAPACITY REDUCTIONS: FINAL ASSESSMENT

millions of tonnes/year

	STEEL	HOT-ROLLED PRODUCTS	COLD-ROLLED AND COATED PRODUCTS
ESTIMATED OVERCAPACITY	33.7 - 39.6	19.0 - 26.2	3.2 - 14.5
SUBSIDIZED UNDERTAKINGS	2.0	5.4	-
NON-SUBSIDIZED UNDERTAKINGS	11.2	5.8	1.8
ITALIAN PRIVATE SECTOR	5.0	5.0	-
TOTAL	18.2	16.2	1.8

ISSN 0254-1475

COM(94) 466 final

DOCUMENTS

EN

10

Catalogue number : CB-CO-94-495-EN-C

ISBN 92-77-81533-7

Office for Official Publications of the European Communities
L-2985 Luxembourg