

# European Community

## News Release

October 20, 1980

### BACKGROUND NOTE

#### THE EUROPEAN COMMUNITY STEEL CRISIS

The situation in the European Community iron and steel industry has deteriorated seriously during the course of this year, in particular since last June. Three sets of factors have contributed to this deterioration:

- (i) demand has dropped alarmingly since the end of the second quarter;
- (ii) the corresponding drop in production and prices has led to a deterioration in the firms' financial situation;
- (iii) firms have ceased to accept the voluntary restraint measures introduced by the EC Commission in 1977.

#### I Reduction in demand

There has been a reduction in demand on both the Community and world markets. The reduction in demand on the internal market is due to the downturn in the economy.

According to the Commission's monthly business survey, the production forecasts for the main steel-using sectors show a distinct downward trend. Further evidence of the reduction in demand is provided by the rapid growth in the stocks of steel. Comparison between the supply of steel and the utilization thereof shows an increase in stocks of more than 3 million tonnes in the first six months of 1980. (This quantity is now having an adverse effect on the whole steel market.)

There has been a substantial drop in demand on the world market because of the economic downturn in a large number of steel-importing countries. This reduction in demand on the world market has been increasingly intensified by the almost total disappearance of purchases by developing countries because of the financial difficulties caused by the increased energy prices. This trend is reflected in the new orders recorded by the Community steel industry both from the other Community countries and from non-member countries.

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The following table compares the current situation with the corresponding months for 1979, which was itself a fairly poor year.

Orders recorded

	From the EEC	From non-member countries	Total
May	-14.3%	-15.1%	-14.5%
June	-13.6%	-11.1%	-13.0%
July	-18.5%	- 8.5%	-16.3%

The steel industry's survey of crude steel production programmes shows, in a large number of undertakings, declines in production of more than 20 per cent, in a comparison of the fourth quarter of 1980 with the fourth quarter of 1979.

Consequently, production on average has declined to only 58 per cent of capacity, from some 70 per cent in the first quarter of 1980. In some undertakings the rate of utilization is already lower than 50 per cent. However, in other undertakings, there has been some increase in production.

By way of comparison the Japanese and American steel industries are operating at about 70 per cent of capacity, and the Canadian steel industry at some 85 per cent.

II. Consequences as regards firms' financial situation

The fall in demand mentioned above and the failure to keep to the delivery programmes have caused a fall in prices; in September this fall was roughly 13 per cent on average compared with prices at the beginning of the year. On the other hand, most of the factors of production have increased in price; this is particularly true of ores, coke, certain alloys, labour and overheads. The result is that production costs have gone up on average by about 5 per cent in the Community since the start of 1980.

The fall in prices and the increase in costs has meant that the financial situation of steel firms has changed considerably. At the beginning of the year, firms of average competitiveness were able to cover production costs with the prices they charged for steel products. But, now that steel firms are losing an average of \$65 - \$80 per tonne, losses are already exceeding the depreciation costs and no longer allow all the variable costs to be covered.

This deterioration in the financial situation is so serious that the steel firms are once again obliged to make use of their own reserves in order to survive. Where reserves are already completely used up, indebtedness is forcing the firms either to cut down, or abandon altogether, their efforts at making the adjustments required in order to survive. In particular, they are being forced to prune, or even abandon, their investment programmes. This trend runs counter to the purpose of restructuring which, in a whole series of firms, has been interrupted by the financial situation.

The Community's steel firms are in a situation in which it is impossible to achieve the objectives set under Article 3 of the treaty establishing the European Coal and Steel Community; prices no longer cover depreciation or improvements in working conditions. Pursuant to the general obligations which Article 3 imposes on the Commission, in particular to ensure the maintenance of conditions which will encourage firms to expand and improve their production potential, the Commission finds that the Community steel industry has been confronted with a period of manifest crisis since summer 1980.

### III. The unsuitability at present of the crisis measures used hitherto

Under its general steel policy the Commission drew up delivery programmes, from January 1977 on, for some iron and steel products in respect of which firms entered into voluntary commitments.

These programmes were accepted, at the start of the operation, by producers in the Community representing more than 90 per cent of steel production, and the reduction in supply brought about by the programmes helped to stabilize the market situation and spread the sacrifices fairly between firms. Moreover, as regards prices, the Commission has found that the price rules have been increasingly ignored.

In view of the producers' inability to counter the abrupt drop in demand with a reasonable pricing policy, the Commission and the producers together have most recently examined the possibility of introducing a voluntary system of production quotas for several types of product and for crude steel.

It was then that the large majority of heads of steel undertakings clearly gave the Commission to understand that, because their recent and repeated efforts to re-establish between them the climate of confidence necessary to ensure the success of voluntary measures had failed, they now felt that no institution other than the Community was in a position to impose the measures they felt to be indispensable for restoring order.

The Commission therefore finds that the conditions for applying Article 58\*of the European Coal and Steel Community Treaty are satisfied. As a result, it must ask for the Council of Ministers' assent to the establishment of a system of production quotas for the steel industry.

This decision must be taken urgently, firstly to ensure that supply is to some extent adjusted to the demand on the market and, secondly, to support producers' efforts to re-establish the conditions in which the crisis measures can once again operate.

If measures of this type are to succeed, they need to be simple, quick, vigorous and shortlived.

Unless Community action is taken, the situation will continue to worsen to a point where certain firms would soon be threatened and employment would soon be jeopardized throughout the sector above and beyond what is required by restructuring.

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\*Article 58 empowers the Commission, after consulting the Consultative Committee and with the assent of the Council, to establish a system of production quotas to be allocated among producers "on an equitable basis" in the event of "a manifest crisis" in the industry.

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