A steel policy for Europe

European File

The European steel industry has been seriously hit by the economic crisis. Between 1974 and 1978, some 100 000 people lost their jobs, more than 100 000 found themselves on short time and steel production fell 20%. Despite these cutbacks, the future doesn't look rosy for the remaining 700 000 workers in the steel industry, or those employed in related industries.

The steel crisis is not confined to Europe. It is worldwide. It was brought about by the economic recession, which reduced comsumption, and by overcapacity, the result of heavy investment during the euphoria of the years of economic growth. This has been particularly the case in Japan where production multiplied seven-fold between 1960 and 1975. Over the same period output in the European Community doubled and in the United States remained stable.

Today there is too much steel produced in the world and competition has sent prices tumbling. In addition, traditional steel producers (such as Europe) are now operating at a disadvantage in relation to new producers such as Japan and Third World countries who benefit from new plant, lower wage costs and, sometimes, easier access to natural resources, all of which give them a stronger position in the market.

From euphoria to crisis

During the post-war years, the steel industry saw exceptional expansion in industrial countries. It benefited from the general economic success, understandably since steel

Commission of the European Communities
Directorate General for Information,
Rue de la Loi 200 - B - 1049 Brussels

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is basic to the production of all capital equipment and most consumer goods, not to mention construction equipment, car production and other forms of transport.

Over a 28-years period, 1946 to 1974, world production of crude steel multiplied sixfold, rising from 112 million to 708 million tonnes. The most dramatic expansion was in Japan where the 2.5% share of world production it enjoyed in 1950 expanded to 16% in 1970, whilst exports grew by a factor of 16. During the good years, Community steel carved out a hefty share of the market and by 1974 accounted for 22% of world production, employed close on to 800 000 workers and was responsible for 7% of industrial production in the Community.

Since the end of 1974, the industry has been in a state of crisis. With the economic growth of the 1960s running out of steam, demand for steel has slumped. In 1975, world crude steel production dropped 9%, and Europe, the USA and even Japan became suddenly sharply aware of their overcapacity — the result of over-investment during the growth years. In 1977, the European steel industry was operating at only 60% capacity, the USA at 77% and Japan 74%.

For the Community, the world steel crisis has meant :

- cutbacks in production : 1977 output was down on 1974 (126 million tonnes against 155 million). Production rose slightly in 1978 to 134 million but productive capacity in the Community stands at some 200 million tonnes. The industry needs to produce and sell 160 to 170 million tonnes to be profitable;
- slump in prices. Between 1974 and 1977 they dropped 50%. Despite rallying 20 to 25% as a result of measures taken by the Community, prices are still too low considering the high production costs in Europe;
- deterioration in the employment picture. Between December 1974 and June 1978, there were 95 000 redundancies (more than 12% of the total payroll in the Community's steel industry) and more than 100 000 other workers were put on short-time working. In the steel industry today one worker in seven runs the risk of losing his job. The total payroll is expected to be cut to around 600 000 by 1980;
- considerable financial loss, amounting to 3 000 million European units of account[1] for the whole Community steel industry in 1977. In addition to structural overcapacity, the industry also has a problem of low productivity. A good number of European steel plants are old and ill-equipped to face the competition from new steel producers. In 1973 — a prosperous year — it took 8.3 hours of labour to produce a tonne of crude steel in the Community, but only 5.9 hours in Japan.

Why is steel a Community concern ?

The economic crisis affects all of the nine Community countries since each has its own steel industry. This industry occupies a central role in the national economy

[1] 1 EUA = about £0.68 (at exchange rates current on 1 February 1979).

of all countries except Denmark and Ireland. The Community can and must play a leading role in finding a solution to the industry's problems :

- ☐ first of all because that is its agreed role : the Treaty of Paris signed in 1951 gave birth to the European Coal and Steel Community (ECSC). Removed from the traditional rivalry of nations vying for European supremacy, steel came under common control. The rapid expansion of coal and steel trade within the Six — an increase of 129% over the first five years of the ECSC — contributed greatly to the economic recovery in Europe. The mechanisms introduced with the creation of the ECSC, and 27 years of experience in joint decision-making and cooperation should help the European steel industries face up to the crisis;

- ☐ secondly, because the reorganization forced on the industry by the current structural difficulties cannot be undertaken effectively if European countries act independently. All of them sell their wares on the same market. Any forecasts or national plans which do not take into account the existence of a Common Market and the policies of the other partners will end up making the crisis even worse. No country can save its steel industry single handed. Reorganization work will only be acceptable if the difficulties, costs and sacrifices are equitably distributed.

Why Europeanize steel ?

The European Coal and Steel Community will soon enter its thirtieth year of existence. For close on three decades, steel has been European. It is now, however, facing a crisis without precedent. Has the ECSC been any real use ?

To try and evaluate the work of the ECSC let us imagine that the institution had never been created. What would have happened ?

- ☐ Customs barriers between European countries would not have been removed and national steel industries would only be exporting around 20% of their output (average 1977) to other Community countries. The steel industry would not have been able to help our economies expand, raise the standard of living and enable Europe to sustain average economic growth rates of around 5% per annum for some 20 years. The close proximity of the national markets would have been a severe obstacle to specialization and increasing productivity. European countries would have been faced with an impossible alternative : either to restrict the formation of the needed industrial groupings and force insufficiently equipped firms into cut-throat competition with each other, or alternatively, encourage the creation of veritable national monopolies, thereby foregoing the benefits which fair and balanced competition can offer to consumers and to economic growth.

- ☐ Europe, the USA and the Soviet Union cannot expect to hold onto their industrial monopoly indefinitely. If the ECSC had not existed, the emergence of new producers would not have come one day later than it has. And in the steel crisis, the competitive threat from Japan and certain Eastern European and Third

World countries has been a more important factor than the economic recession. How would these competing European countries have reacted on their own to the new competition ? Doubtless they would have tried to protect their industries by raising tariff barriers. But protectionism is often countered by further protectionism. Dependent on third countries for raw materials and sales of finished products, our countries would have paid a heavy price. Product by product, the protectionist fever would have engulfed all countries and paralysed international trade. It would have led to a series of currency devaluations in an effort to boost exports — devaluations which would in effect have cancelled each other out — and induced generalized unemployment worse than during the years of the depression.

The existence of the ECSC, it can be argued, has stopped the crisis turning into a veritable economic war between European countries. On the other hand, and fortunately for our countries, the Community is able to use its weight in international relations — its foreign trade represents one fifth of world trade — to try and introduce a new discipline on the international steel market and assure the Community's position as a net exporter of steel.

1954-1978 : Community aid to European steel

Since its creation, the ECSC has been endowed with an armoury of very diversified aids which it can make available to companies and workers in the coal and steel industries. The size of these aids has been substantially increased as the crisis has bitten deeper :

☐ 3 287 million EUA were distributed in loans to encourage the modernization of European steel between 1954 and 1978, of which 370.3 million EUA were lent out in 1978 alone;

☐ loans totalling 572.5 million EUA (113.3 million in 1978) were granted to stimulate industrial change, i.e. the creation of new industrial activities following job cutbacks in the coal and steel sector;

☐ interest relief grants aimed at facilitating change, were increased from 15 to 21.8 million EUA in 1977 and to 40 million in 1978;

☐ aid to scientific research in the steel sector amounted to 12.5 million EUA in 1977 and 16 million in 1978;

☐ also since its creation in 1975, the European Regional Development Fund has accorded investment assistance in the steel sector to the value of 25 million EUA (up until the end of 1978);

☐ low-interest loans granted to the steel sector by the European Investment Bank have risen by 672 million EUA between 1958 and 1978, 225.3 million of which were issued in 1977 and 1978.

In addition to this modernization and reconversion work, the Community has also given non-reimbursable aid of a social nature. Such aid benefits those workers hit by plant closures, cutbacks or changes in company activity. The objective is to find them new jobs with the best conditions possible. From 1976 to 1978, 44 million EUA (29.7 million of which in 1978) have been made available to Member States for programmes affecting 48 000 workers (31 000 in 1978). Such aid is of a temporary nature and must be matched by an equivalent contribution from the country concerned. It can take the form of :

- ☐ unemployment payments or income supplements for workers taking up less well paid jobs;
- ☐ financial assistance for vocational retraining when workers have to change jobs;
- ☐ contributions to relocation costs when workers have to move to new regions for work;
- ☐ payments to companies to ensure an income for workers on short time due to company reorganizations.

The Davignon Plan

Faced with economic crisis, a number of alternatives have been put forward :

- ☐ Benefit from the low prices on the world market, stock up and steadily withdraw from producing steel in Europe. This is impossible : Europe cannot risk being any more dependent on outside suppliers in such a basic sector whilst it is already receiving three quarters of its raw materials and energy supplies from third countries. Also — and more importantly — 700 000 jobs are at stake.
- ☐ Protect Europe from foreign-manufactured steel by closing the Community's frontiers. This however would result in shifting the crisis to other sectors such as the car industry and engineering where products would become more expensive and lose their competitivity in the Community and outside. Also, third countries would not be slow in reacting to this with reprisals on our exports. In short, this could mean worse unemployment in the Community. By contrast, what the Community has done is to negotiate with our competitors ways of stabilizing their sales of steel products to the Community.
- ☐ Subsidize European steel production to keep prices at the level of world competition despite higher production costs. It should be realized that in 1977 every tonne of steel produced in the Community was sold on average at 245 EUA below the cost price. For the 126 million tonnes produced, the loss was about 3 000 million EUA which amounts to 11 EUA for every European taxpayer and 4 000 EUA for every worker in the steel industry. This is no basis for a policy, however, since workers in others sectors in crisis should merit the same treatment. Also, because the enormous cost of this policy would ultimately be paid for by workers in healthy sectors via taxation. The growth of these sectors would be

harmed. Public aid can only be permitted by the Community for a limited period and only as long as it modernizes plant and improves the competitivity of the steel industry.

☐ Expand steel consumption by producing more equipment using steel. There is certainly a lot that can be done along these lines, but should we be using cheap or expensive steel ? If the latter were the case, the consumer or the taxpayer — and often the worker — would foot the bill. In reality more European steel could be used than would be competitive. The Community already helps raise steel sales by keeping as many export markets as possible open and encouraging general economic recovery, and more specifically by launching major European infrastructure programmes — which can potentially use a great deal of steel.

Rather than lead European steel into a blind alley, the Community has chosen to attack the basis of the problem and all its aspects, giving absolute priority to the human element i.e. the hundreds of thousands of workers who depend directly or indirectly on the future of the European industry.

Also, the Community has opted for a modernization policy to make the steel industry more competitive and thereby assure the maximum number of viable jobs. The Community does not intend to abandon this rescue programme to the fate of market forces. Solidarity must be ensured concerning the production capacities to be maintained and modernized, and concerning its social and regional consequences. Reorganization, reconversion and the redeployment of workers must all be looked at in parallel. At the same time, the unity of the Community market must be maintained as well as the competitiveness of companies in this market. Contacts with external markets and research and technological innovation effort must be amplified.

This is the sense of the anti-crisis plan being followed by the European Commission — better known as the Davignon Plan, named after the Commissioner in charge of industrial questions. The plan has two approaches, one internal and the other external, and extends over two phases. In the short term it aims to stop the financial losses being incurred by European steel companies. In the long term it aims to reorganize the sector to make it more competitive. Since there is no question of increasing capacity which is already in surplus, this involves modernizing plant and making steelworks more productive which will necessarily be accompanied by more job losses. But this can only be acceptable if at the same time alternative jobs are created outside the steel industry in the regions affected by reorganization.

☐ *In the short term* the Davignon Plan aims to :

- Put a ceiling on (already surplus) production capacities in the Community and establish compulsory minimum prices for particularly sensitive products, and recommended prices for other products.

- Discipline trade *vis-à-vis* the rest of the world. Anti-dumping measures have already been taken against imports from countries selling in Europe at prices lower than the production costs of the most efficient factories. Arrangements have been made with exporting countries (particularly Japan, South Africa, Czechoslovakia, Bulgaria, Hungary and certain Western European countries) to ensure that their accord with their costs, and to set a limit for their exports. European steel imports, which amounted to 12.4 million tonnes in 1976, have been brought down to around 11 million tonnes in 1978, whilst our exports rose from 21.5 to more than 30 million tonnes. This managed to save around 55 000 jobs in the European steel industry.

☐ *over the medium term* the Davignon Plan aims to :

- Prohibit national aids which increase production capacities or which distort competition within the Common Market.
- Grant Community loans to encourage the modernization and rationalization of companies to provide a better balance between supply and demand.
- Increase Community aid for industrial conversion and diversification in the major steel making areas. By 1985, some 100 000 jobs must be created to compensate for steel industry redundancies. By moving along the road to economic and monetary union and by supporting growth sectors, the Community is already trying to create the conditions for a general economic recovery which will help multiply new jobs. But up until the present, it has only supported steel reorganization programmes if they are accompanied by regional and social aid.
- Study ways of improving the share-out of available work possibly through financial intervention from the ECSC : reducing the retirement age, reorganizing shift work, reducing the length of the working week, restricting overtime etc.
- Intensify the innovation and research effort covering products and production processes, so as to ensure better utilization of minerals and energy.
- Conduct negotiations with the other major steel producers to ensure an equitable division of the cost burden at the world level.

☆

The success of the 'Davignon Plan' is a test of European unity. Rooted in the Treaty of Paris (the basis of the ECSC) which gives the Community wider powers than the Treaty of Rome (the basis of the Common Market) European steel policy is destined to succeed. If it doesn't, we should rid ourselves of any illusions about Europe's capacity to resolve some of the other critical problems (energy, textiles, shipbuilding etc.) where the Community has much more limited needs at its disposal. ■

Commission of the European Communities

Information offices

Dublin	29 Merrion Square, Dublin 2 — Tel. 76 03 53
London	20 Kensington Palace Gardens, London W8 4QQ — Tel. 727 80 90
Cardiff	4 Cathedral Road, Cardiff CF1 9SG — Tel. 37 16 31
Edinburgh	7 Alva Street, Edinburgh EH2 4PH — Tel. 225 20 58
Ottawa	Association House (suite 1110), 350 Sparks Street, Ottawa Ont. KIR 7S8 — Tel. 238 64 64
Washington	2100 M. Street, N.W. Suite 707, Washington D.C. 20037-USA — Tel. 202-872 83 50

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