

12 September 1979

Outline of M. Davignon's speech.
"Restructuring in the 80s"

Conference of the Metals Society - Amsterdam 13TH September 1979.

1. The steel industry is an industry vital to Europe. Europe needs to make its own steel: dependent as it is on outside sources for energy and raw materials, it cannot afford to be dependent for steel as well.
2. The Community has a major responsibility to the steel industry, for the Treaty of Paris requires it to secure the steel sector's future and provides it with the legal and financial means for doing so.
3. The industry's future has to be taken in the broadest sense: it means not just making sure it pays its way, but also, quite as importantly, affording the workers and areas concerned solid prospects of steady employment and development either in steelmaking or in alternative activities.
4. But the future of steel, and of the steelworkers and the steel-producing areas, demands a healthy industrial basis: steel must be a sector generating wealth and prosperity, not a parasitic one taking more than it gives, at the expense either of the taxpayer or of the consumer.
5. This being so, Community policy has three main aims, all interrelated—the restructuring of capacity, the redevelopment of the producer areas and the retraining and reabsorption of the workers.

Restructuring, which we are here to discuss today, can usefully be viewed in the context, firstly, of the movement of demand, and secondly, of the movement of supply and of technology.

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A. Movement of demand for steel in the Community

A.1. From 1965 to 1973 demand for steel grew in parallel with national product. Since 1973-74 it has ceased to do so.

	Average annual growth in %	
	<u>Steel demand</u>	<u>GNP</u>
1965-73	4.3%	4.5%
1973-78	-3.0%	1.0%

A.2. This divergence in trend is due mainly to

(a) contraction in the activity of the major steel-consuming sectors.

	Average annual growth in %	
	<u>1965-73</u>	<u>1973-78</u>
Motor industry	+5.1%	-0.3%
Mechanical engineering	+4.5%	-0.3%
Shipyards	+7.9%	-4.9%
Building industry	+2.9%	-2.2%

(b) lower specific steel consumption, i.e. smaller consumption of steel per unit produced.

The incidence of these two factors in the fall in consumption may be put at around 30% in the case of (a) and 70% in the case of (b).

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B. Supply

B.1. Movement of capacity

B.1.1. The investment surveys show expected crude-steel capacity in 1982 as working out 0.4 million tonnes below that in 1978.

B.1.2. This slight decrease, however, is the net result of a considerable variety of trends at most individual enterprises.

Of 285 crude-steel plants in the Community,
66 expect their capacity to be larger,
35 expect it to be smaller,
184 expect it to remain the same.

On a breakdown country by country, capacity increases are envisaged in Britain, Italy, the Netherlands and Ireland, and net decreases in France, Germany, Belgium and Denmark.

B.1.3. Since 1975 the enterprises have been regularly making downward adjustments. Thus in 1978 installed capacity (202.1 million tonnes) was 10.7 million tonnes lower than the 1975 plans; in 1979 it was 12.3 million tonnes lower than the 1976 plans.

B.1.4. The present figure for 1982 (201.7 million tonnes) is still well above forecast market requirements (some 180 million tonnes), but 10 million tonnes below that indicated last year.

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B.2. Capacity utilization

B.2.1. Average capacity utilization rates for crude steel were:

in 1974, 86.9%,
 in 1977, 62.8%,
 in 1978, 65.5%.

For finished products, they stand at round about 60%.

Capacity utilization rates in %

<u>Product</u>	<u>1974</u>	<u>1977</u>	<u>1978</u>
Heavy sections	78	58	60
Light sections	80	59	60
Wire rod	83	58	60
Coil	82	66	68
Hoop and strip	78	59	59
Plate	81	50	50
Cold-reduced sheet	76	63	65

B.2.2. These rates could have been quite a lot higher if obsolete and uncompetitive plant had been taken out of production.

Taking as obsolete installations running at below 30% of capacity, the 1978 utilization rates could have worked out as follows:

Heavy sections	67%, i.e. 7% better
Light sections	68%, i.e. 8% better
Wire rod	64%, i.e. 4% better
Coil	69%, i.e. 1% better
Hoop and strip	69%, i.e. 10% better
Plate	61%, i.e. 11% better
Cold-reduced sheet	65%

B.2.3. Between 1978 and 1982 net capacity reductions are in prospect only in the case of:

light sections (-4.7%),
hoop and strip (-5.7%).

C. Movement of technology

C.1. Capital spending on modernization and better competitiveness is directed in the main to:

- (i) practically doing away with basic Bessemer and open-hearth steelmaking, with capacity down from 22% in 1974 to 8% in 1978 and expected to amount to only 4% in 1982;
- (ii) vigorously expanding continuous casting, from 23 million tonnes in 1974 to 97 million in 1983, an average increase of 17.5% a year.

C.2. Much less, however, is being spent on rolling-mill modernization: evidently plants with obsolete mills prefer to carry on with them as there is nothing else to do short of closing them down.

6. What, then, is the conclusion to be as regards the restructuring of the European steel industry?

In a word, it is this. Restructuring is proceeding: perhaps it is proceeding too slowly for strict market requirements, but in some areas it is at the farthest limit of the socially, regionally and politically tolerable, given the extreme difficulty of redeveloping in the midst of an all-round crisis.

The way we conceive restructuring is neither abstract nor theoretical : it does take into account what one might call the steel tradition of certain regions, the goal being to establish a solidarity between those who have already achieved modernization and those who must improve their position.

7. All the same, we must be sure not to let up on the restructuring process. The European steel industry's profitability position vis-à-vis its Japanese and American counterparts has worsened since 1976, some few producers apart.

In the United States and Japan profits have taken a definite turn for the better since the trough of the crisis in 1975-76: all their steel firms are paying dividends this year, and the ratio of own funds to borrowings is improving.

In Europe on the other hand only a handful of firms are in the black after tax: most are in the red notwithstanding higher turnover due to tonnage and price increases. The basic reason is not only their level of indebtedness—which anyhow varies very much from country to country, and is for the most part lower than the Japanese companies'—but their actual operating costs.

8. Our costs are too high chiefly for two reasons:

- (a) our technology is inadequate vis-à-vis Japan's (economies of scale);
- (b) our capacity utilization is far below America's.

In both cases the blame must rest on deficient restructuring: there is nothing for it but to scrap obsolete capacity and concentrate production on the most modern plant in order to ensure the fullest possible utilization.

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9. Restructuring is being hampered by perfectly real and legitimate problems, the difficulty of reabsorbing the workers. But it is also being hampered by alibis:

- (i) the alibi for some that others are not doing enough;
- (ii) the alibi afforded by national aid from the public purse, to those who are getting it, but also to those who complain they are not getting it, or who are getting it by stealth;
- (iii) the alibi of unduly short-term social concern: instead of creating alternative employment the course is taken of preserving insecure jobs on obsolete plant or under-utilized modern installations;
- (iv) and the alibi of the anti-crisis plan itself, which enables marginal enterprises to carry on without excessive losses but without the means to renew their plant.

10. The reasons why restructuring must go ahead:

- . the Japanese, with their technological superiority, have the advantage of top competitiveness in a direct export market which absorbs about a third of their production;
- . the Americans have the advantage of their home market, which they are very good at protecting and organizing for maximum profit;
- . so what the Europeans must do is,
firstly, get a better grip on their own market,
and secondly, by being sufficiently competitive, run a significant net export balance direct and indirect.

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In other words the Europeans cannot, like the Americans, look to organization of their internal market to offset low competitiveness, for they have to continue to export. Yet on the other hand, given the pattern of the European steel industry, its geographical location and the fact that it is so interwoven with the fabric of Community industry as a whole, emphasis on productivity alone is not the way out of the present troubles.

11. Accordingly, the Commission is going in 1980 to propose an integrated programme focused on restructuring and underpinned by an anti-crisis plan consisting, as in 1978 and 1979, of an external and an internal set of measures. At the same time restructuring will be more closely linked to market organization so as to make for fuller utilization of the most competitive plant: rising unit energy and labour costs have got to be offset both by higher productivity such as only restructuring can bring about; and by parallel upping of prices both within the Community and on the export markets.

12. The restructuring of the steel industry is primarily the operators' own business: the Community's job is to ensure that programmes are mutually consistent and strike a fair balance between economic sense and social concern, and to round them out with the necessary regional and social schemes.

In addition it provides above all the market base the industry needs to carry through the restructuring process without this bearing intolerably hard on the crisis-hit public finances.

But make no mistake, the Community cannot let it be thought by such as may be tempted to put off restructuring in view of the

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coming market organization measures that Community solidarity will go on bailing them out and stultifying what the others are doing.

Term is starting, with the final exam of the market coming up at the end of the year. Those who fail it are not sure of a place in next year's class.