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AT THE

EIGHTY-EIGHTH

GENERAL MEETING OF THE

AMERICAN IRON AND STEEL INSTITUTE

NEW YORK, NEW YORK

MAY 21 and 22, 1980.

THE FUTURE OF STEEL IN PRIVATE AND MIXED ECONOMIES

That the question of the future of steel in both private and mixed economy is before us, is a significant indication of the general uncertainty produced by the changes which have occurred in this sector since the middle of the last decade and which are still taking place.

The fundamental question concerns the steel industry's long-term viability. What is the future of steel in the coming years?

A second question is to what extent this future is linked to increasing state intervention. Could mixed ownership and, consequently, public financing alter the development of the steel industry?

Clearly, some of the problems associated with this central theme could give rise to more fundamental questions such as:

- Can public finance be an adequate successor and substitute to the dynamism provided by private shareholders?
- Is public financing necessary, and how will it alter the objectives associated with free enterprise?
- Is the future of steel in industrialized countries determined by the ability of the state to provide alternative finance to private capital?

The European Economic Community's experience in these areas is particularly instructive. Within the Community privately owned steel companies, jointly-owned enterprises and several wholly government owned companies operate in the same market. Some of the wholly owned companies are among the largest. Moreover, the situation is not static and far-reaching reorganizations of financial participation have taken place or are under discussion.

I. THE FUTURE OF STEEL

The influence of the European Community member states in the steel sector has to be placed within the context of that industry's development during the next decade.

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There can be no doubt that the steel sector has now reached a major turning point in its history. Until recently, it seemed that extremely long-term extrapolations could be made on the basis of the sustained, prolonged growth which characterized this industry.

From the beginning of the fifties, the world's steel industry had become accustomed to continuing growth in steel production and consumption which increased by more than 5% per annum between 1955 and 1974. General confidence in the continuation of the growth was such that in 1974 most experts thought that the difficulties confronting steel-makers in 1975 would mainly be due to a shortage of productive capacity aggravated by the scarcity of certain raw materials, such as coking coal. We now know what happened in 1975 - a sudden, acute fall in demand occurred together with a completely unexpected decline in production.

The prolonged experience of sustained growth over 25 years was, however, such that optimism persisted to the point where, in the middle of 1976, it was felt that the worst of the recession was over and the effects of the following, highly satisfactory year for steel would be fully felt in 1978.

In reality, the break which occurred in 1974-75 revealed the weakness of projections to the extent that the latter did not take account of developments brought about by structural reorganization and changes.

I will only refer here to some of the factors which have had a greater impact on some industries such as steel than on certain other industries: the energy crisis; inflation or rather stagflation, environmental protection regulations, fluctuations in exchange rates, the failure to accumulate capital, the gradual decline in productivity, increasing competition from the new producer countries, etc.

The consequences for the geographical distribution of production are striking. In the five years from 1973 to 1978, the EC, U.S.A. and Japan saw their share of production fall by more than 8% from 61% to 53%, i.e., by more than 65 million tons. This is an important phenomenon, particularly for Europe, since steel is a strategic industry: steel making cannot be dispensed with unless increased dependence on the outside world is accepted, when we are already very dependent on most raw materials.

However, a decision of principle to maintain a strong steel industry should not be allowed to burden our economies: the industry must be brought back into line with new market factors, achieve competitiveness and, live by its own resources.

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In this connection, there is no need to take a pessimistic view of the future, although recent forecast of a steel shortage by 1985 should be assessed cautiously.

The world's potential steel requirements are still immense. It should be remembered that average per capita consumption in the developing countries is approximately 30kg per annum, i.e., 1/20th of the amount consumed in the industrialized countries. Nevertheless, the distribution of production will be affected by both new production techniques, which will enable increasing numbers of countries to manufacture steel, and the transfer of production facilities, either to the sources of supply or to new consumer markets.

II. DEVELOPMENT OF STEEL AS A PRIVATELY OWNED OR JOINT STATE-PRIVATE INDUSTRY

How is the steel industry to be financed?

During the years of growth, would we have thought it desirable to contemplate a far-reaching change in how investment in the steel industry is financed?

The development of a number of steel companies within the Community was financed exclusively by public capital, in an effort to overcome shortcomings in a sector basic to all industrial developments. But this is only one rather special reason for the development of publicly owned steel industries in Europe. In more general terms, one must ask why privately owned steel is now increasingly driven to seek public finance to survive and whether their objectives are not being altered in the process.

Integrated bulk steel making is now by necessity a very large scale process. Technology and productivity have, over the last twenty-five years, increased to optimum plant capacity from one million tons per year to more than ten million tons. During this period of technological transformation, the steel industries in the traditionally industrialized countries have seen extremely modern and highly cost-effective plants existing side-by-side with more old-fashioned plants whose profitability was, admittedly, much lower but was still considered sufficient in a rapidly-expanding market.

The magnitude of the resources required to create an integrated large scale industry goes a long way towards explaining and understanding the increase in public financing. Furthermore, the duration, the magnitude and especially the suddenness of the recession have put the basic facts of the industry into even greater relief. A market with a slower growth rate or in recession or, in other words, the shift from "a selling

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market" to a "buying market" requires far-reaching adjustments to be made in as short a time as possible. While the firms themselves are obviously responsible for their restructuring programmes, the public authorities must nevertheless ensure that the effort is made under conditions that are tolerable in terms of the employment and the regional balance in areas most affected by these transformations.

The question of public financing thus has to be seen from two points of view: public financing in the form of aids and public financing in the form of a share-holding. Although our discussion today deals mainly with the latter, the former cannot be ignored, especially since the two are often confused.

The member states of the European Community have recently adopted strict new rules for the terms and conditions on which governments may be authorized to grant aids to the steel industry. But let there be no doubt on this point: such aids are authorized only under certain conditions and within precisely-defined limits so that they do not affect competition or trade. The recipients of these aids should not be firms but should be the workers who are affected by partial or total closures of production plants. The direct responsibility of the official authorities here is to mitigate as much as possible the social and regional consequences of the steel crisis.

These measures are not, on the other hand, intended to render the Community steel industry artificially competitive by means of state subsidies: no member state has the resources to do so and the Community bans such practices since they would jeopardize the unity of the market. Artificial support granted to the steel industry by means of state aids would have the effect, as with protectionism, of creating difficulties for the consuming industries, since their steel supplies would become too costly. When the state owns part of a company's capital, the objective of the firm in a free-market economy are likely to be modified. The principles of free enterprise and competition would be affected, particularly concerning profitability, the notion of risk, and the problem of decision-making. Concerning the rate of profit, we are faced with a trade-off between certain regional aids and certain protective pressures. The Community market is as open as it is because we do authorize same aids for regional reasons. There would be no point in anyone attacking regional aids in the Community, which are already restricted by the Commission if the result was to increase the pressures for direct forms of protection.

As regards the two other factors, if the decision to acquire a holding was taken solely in order to substitute the official authorities for the private management, there would be a

danger that the principles of competition would be questioned and the steel industry would develop without the constraints of the market and production costs. But this would be far from the truth: in fact, the magnitude of the crisis and its consequences for the financial stability of the steel companies and the scope of the rationalizations, have forced several firms to appeal to outside financing, failing which they would have been unable to continue their activities. The official authorities were sensitive to these decisions in view of their social and regional consequences.

This type of financing can, in the present situation, offer certain advantages, provided that the state financial holding goes hand-in -hand with real participation in the decision-making process.
The public authorities, when making investments, make greater allowance than private investors for the need for regional balance and a consistent industrial structure - this factor cannot be overlooked.

On the other hand, one has to recognize that the notion of risk has undergone far-reaching changes over the last twenty-five years. State intervention in the steel industry is becoming increasingly frequent and affects virtually every economic and financial aspect: taxation, transport, regional or social aids, financing of road or port infrastructures, and so on. In such a context, certain entrepreneurs may consider that they should no longer have to take risks resulting from decisions over which they no longer have direct control. Such a trend would be liable, if it were allowed to become widespread to suppress the dynamism of private investment in favour of public investment: this would be the antithesis of a market economy and there is evidently no question of such a development in the European Community.

III. CONCLUSIONS

The trends in the steel industry should therefore not be affected by increased state holdings, since the latter do not correspond to a questioning of the principles of the market economy but are made necessary by the temporary inadequacies of private management. In this context, the economic and social objectives pursued - by private or public financing - should not be different but should promote, together, the consolidation and rationalization of the steel industry.