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FUTURE OF THE WORLD STEEL INDUSTRY

Keynote address by
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THE INSTITUTE OF SCRAP IRON AND STEEL, INC.
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I'm very glad to have been invited to this year's Convention of The Institute of Scrap Iron and Steel. I must tell you however that it took all the seductive charm which this City's reputation exercises upon an innocent European mind to yield to your suggestion and speak about the "Future of the World Steel industry". I finally thought I had to take up the challenge given that here, more than elsewhere, to take a chance is the name of the game.

I'm grateful indeed that you asked a European to this Convention because in steel as in so many other sectors, part of our history, which had good days and bad days, is common history, and part of our present goals and concerns are common goals and concerns. Much has been said in Europe - sometimes not without apprehension - about the growing openness and interest on the US side for the Pacific world. It is true that Japan and some other Asian nations have become important economic areas. The European Community has also developed its relationship with them, notwithstanding the longer distances.

In the meantime however the US and the EC remain very important economic partners and both have a strong mutual interest in each other's economic health and political stability. In 1982 the US had a trade surplus of more than \$ 10 billion, slightly more than \$ 5 billion of which came from the agricultural sector.

As far as steel is concerned, the United States became a net importer of steel in 1959 after the strikes which made it necessary for the American industry to look for their supply outside of this country. At that time the European steel industry seemed in the best position to supplement the shortfall of American steelmakers : in 1961 they provided more than 60 % of the imports of Steel Mill Products into the United States. Except for a slight rebound in the 1973-74 period, this percentage has progressively gone down and reached 25 % in 1980, when the Japanese share, which was below 20 % in 1960, reached more than 38 %.

From that time on steel became part of our common history. More particularly, both our industries went through the fat years in the beginning of the seventies in a slightly euphoric and care-free mood without noting the signals of a fundamental structural change which was progressively taking shape. In this respect a comparison can be drawn with the structural changes which have been taking place in energy consumption since the successive oil shocks. Notwithstanding declining real energy prices specific consumption stays lower, because of the adaptation which has been carried out in terms of energy saving and shifting to other sources of energy. The relationship between the use of energy and the increase of industrial production will probably never again be what it was some years ago.

In the same way it can be said that the importance of Steel has changed dramatically over the past 20 years, both as regards consumption and production. In the whole of the industrialized world the steel industry today faces a major challenge to its survival and development.

Steel-consuming industries have constantly sought to either make better use of the steel component in their products or to substitute steel by other products, especially alloy metals (aluminium) and synthetic materials such as fibre glass. The volume of steel used in the automobile industry has decreased by 10 % per vehicle in the second half of the 1970's, and now accounts for 68 % of the weight of an automobile. If synthetic materials were used in all the applications possible this could be reduced to 50 %. Fibre glass has also replaced steel in many applications in construction.

Moreover, export markets are becoming rare, since Japan and new producers are best placed to cover the demands of the developing countries. Significant examples of this can be found in the Middle East, in Asia and in Latin American countries. In the longer term these are likely to be the fastest-growing markets. The IISI has forecast an average annual growth rate in consumption from 1982-1990 of 5 % for developing countries, compared to 1.5 % for the developed countries.

In a world steel market which has been stagnant since 1974 there have already been important structural changes in the market shares of supplying countries. All the traditional producers have had to make sacrifices.

In 1974 the European Community accounted for 36 % of international trade ^{in steel,} Japan for a similar amount and North America for 8 %. In 1982 all these shares had fallen - the Community to 26 %, Japan to 29 % and North America to 5 %. The market had been taken by other Western European countries, which increased from 7 % to 12 % and especially the developing countries which literally exploded from 5 % to 19 %.

The trend of production has been the same, with the 3 great trading partners having decreased their shares of world production which itself had fallen by 9 % in the same period.

It is clear that the effects of these striking changes in the situation of the steel industry have been exacerbated by the fact that they took place in the context of a world economy which was badly shaken by the double oil crisis which also had negative effects on all other sectors of the economy.

In such conditions - stagnant market, increase in capacity in certain regions - it is little wonder that there have been tensions in world steel trade. These tensions have led the principal trading partners in 1977 to adopt the so-called OECD Consensus on burden sharing and have also led the Community to adopt a policy of restructuring which, in accordance with its international obligations, was designed to avoid shifting the burden to others. This can be clearly seen from the fact that the Community's share of world trade has fallen more than any other supplier.

This consensus reached by all the industrialized countries was based on a common analysis of the situation in the steel sector : overcapacity and lack of competitiveness of many steel mills on the supply side and sober prospects as far as overall steel consumption is concerned. And then something happened which happens all too rarely in international relations : all the OECD countries decided that they had a common enemy which was the international steel crisis.

To overcome that crisis, measures had to be taken by each of them, but these measures, which had to be adapted to individual situations, would not shift the burden of the restructuring to the other partners. Traditional trade-flows should not therefore be upset. It was agreed that a time span of at least five years would be necessary. In reality and largely because of the overall economic recession, this period of adjustment and restructuring will have lasted at least some two years more than was initially foreseen.

The implementation of the OECD-consensus on the US-side led to the so-called TPM (trigger-price-mechanism). Our feeling is that this system did not work satisfactorily and had eventually to be withdrawn, not so much because of its inherent flaws as because of a rather injudicious application of its parameters.

On the European side we established a system of Basic Prices based on the costs of the most efficient producers in market economy countries. As provided for in the GATT, a breach of the Basic Prices could be regarded as prima facie evidence of dumping. Anti-dumping action could, however, only be taken if there was also evidence of injury caused by these imports.

As an alternative to the basic price system, exporting countries could negotiate Arrangements with the Community with a view to maintaining their traditional trade flows. These Arrangements offer substantial benefits to exporting countries :

- they give exporters price advantages compared to the basic prices;
- exporters have a penetration margin of 4 % or 6 % under the delivered prices of Community producers;
- our producers are not allowed to align their prices of imports from Arrangement countries;
- exporters have security from the application of our anti-dumping laws, so long as they respect the Arrangements.

In return, the exporters exercise a certain discipline in quantities exported by not exceeding their traditional share of the Community market.

The Arrangements have proved sufficiently attractive for 15 countries (4 EFTA, 6 other market economy and 5 East European countries) to have concluded Arrangements with us since 1978.

When finally the trigger price mechanism collapsed in the US, American producers filed new anti-dumping and countervailing suits against the European producers. After long negotiations however an agreement on Community steel export limits to the United States was finally signed. In exchange for the withdrawal of the anti-dumping and countervailing charges, the European Community pledged to limit exports of ten product categories of steel to market share allowances based on projected apparent consumption in the U.S.

Having, for many years, consistently rejected the possibility of quantitative restrictions, the fact that we eventually decided to embark on such a course has raised questions. It was not an easy decision for us, nor, I believe, for the US administration. My assessment however is that it represents one of the best examples of crisis management between the US and the EC. The depth and nature of the crisis through which this sector is going left us no choice : ignoring realities could only have led us into a major political crisis, which, I am pleased to say, we were eventually able to avoid.

As to the effectiveness of the Arrangement, the European side has strictly abided by its terms : our exports went down in 1983 by over 30 %. By respecting our undertakings we believe that we have made our contribution to establishing a situation which would allow US industry to restructure. Understandably, therefore, we are more than a little concerned when we see that our place has been taken by other third countries which, with the exception of Japan, have increased their exports by over 40 %.

Some tend to consider that this calls into question the very objective of the Arrangement. Clearly, these nations have the right to export, but need to be subject to the same international rules as all of us.

Our problems with our American friends in the steel sector did not, however, stop entirely with the Arrangement.

You will all, of course, know that last July the US Administration adopted safeguard measures, in the form of quantitative restrictions and increases in tariffs, on special steels. We did not accept that the measures were justified under the GATT and so we requested consultations with the US with a view to obtaining compensation for them. Unfortunately, although we twice extended the GATT deadline for these consultations, the US side has not felt able to make us a compensation offer which we could regard as being acceptable.

We have therefore in the last few days notified to the GATT a list of products on which we will make compensatory withdrawals. In other words, increase tariffs and apply quotas on certain U.S. exports to the EC.

Our views on the justification for these measures have been vindicated by the fact that even in the first half of 1983, before the measures were taken, US production and consumption of U.S. Specialty Steels were already rising rapidly from the trough of 1982 and by the third quarter of 1983 were back at their traditional levels.

As I said before the OECD consensus and subsequent measures as well as the EC-US Arrangement resulted from a common firm belief that steel industries in all the industrialized countries needed a period of painful adjustment, the burden of which should not be shifted on to each other's shoulders. We fully appreciate the efforts made in the US as signalled by the closing of uncompetitive mills and the reduction of overcapacity.

The European industry is presently in the same process of adjustment. Between 1974 and 1983 employment has fallen by over one-third from 800.000 to less than 480.000 thousand jobs and production has decreased from 155 million tons to 111 million.

Moreover, the Member States of the Community accepted an Aids Code the purpose of which was to eliminate all aid programmes to the steel industry. The basic principle of this Code is that no aid will be given to the European steel industry after 1985 and aids to cover operating losses are already prohibited. This code is considerably more restrictive than the GATT subsidies Code which governs such matters at international level.

For the current aid programmes the European Commission has conditioned its approval to the reduction of capacity. Present restructuring plans amount to about 30 million tons reduction of capacity.

The statistical presentation of these decisions don't do justice to the numerous personal and collective tragedies which they provoke. And the overall economic recession made the adjustments even more painful, as not much hope for new job creation existed. Contrary to what is ^{happening} in the US today, the outlook in Europe hasn't become rosier yet.

The Community for its part is however deeply committed to the objectives defined in common in the OECD consensus, as painful^{as} their realisation may be. But it must be emphasized that the efforts and sacrifices of the Community alone would not be sufficient to solve a problem which is commonly recognised as being world wide or even to solve our bilateral difficulties. Other producers, and in the first place the US, have to accept the same effort, discipline and sacrifices if we are to have a lasting return to normal trading relations in this field after 1985.