The European steel policy

European File

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

2/85
January 1985

At the end of January 1984, after winning the approval of the Community's Council of Ministers, the European Commission prolonged until 31 December 1985 the system of monitoring and production quotas introduced into the steel industry in October 1980. Community efforts to restore the competitiveness and viability of the European steel industry are, therefore, to continue.[1]

Such efforts are certainly necessary. The industry has been going through a crisis of unprecedented proportions for a decade. Despite some advances during 1984, crude steel output in the Community is now closer to the level of 20 years ago than the peak reached in 1974. The number of steel workers continues to decline. Whole regions, whose prosperity depended on steel, are in the throes of painful economic restructuring.

The facts of the crisis

For nearly 30 years from the end of the Second World War to 1974, steel production in industrialized countries expanded in line with economic growth. Steel is a vital component in the manufacture of a whole range of machinery and comsumer goods and in the building and transport industries.

Up to 1974 world demand for steel grew by 6% a year. Between 1946 and 1974 world production of crude steel increased six-fold, from 112 million tonnes to 704 million tonnes. Community steel production reached 156 million tonnes.

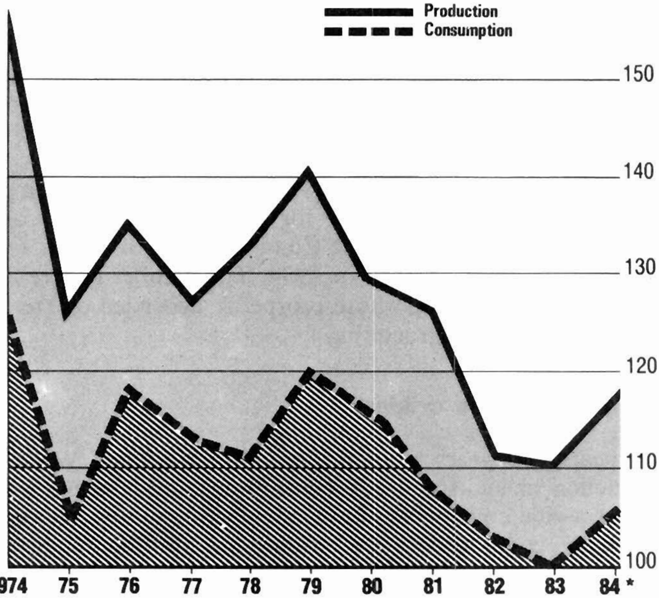
After 1974, the picture changes completely. Following the first 'oil shock', demand for, and production of, steel fell abruptly in 1975. In the years up to 1983 the annual increase in world demand was less than 0.5%. By 1983 world steel production, at 662 million tonnes, was only 3% higher than in 1975 and far behind the record figures for 1974. Within the Community crude steel production feel even more sharply, by 13% between 1975 and 1983, when the total fell just short of 110 million tonnes. This was 30% below the 1974 figure. Why these rapid changes?

☐ The recession slowed world demand. The traditional steel-consuming sectors were shrinking or in decline: building, light-engineering and shipbuilding. What is more, the development of alternative products and changes in the design and methods of manufacturing finished goods, particularly in industrialized countries, further reduced the demand for steel. In the car industry alone steel requirements in the manufacture of vehicles shrank by 10% between 1975 and 1980.

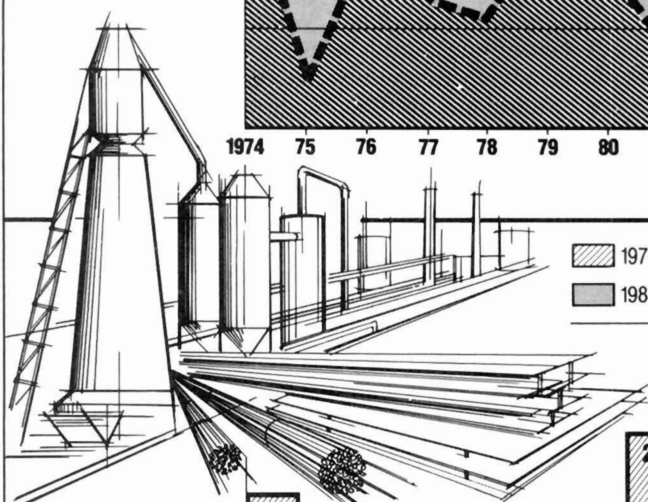
☐ The international steel-making map has been re-drawn. In the industrialized countries, demand is declining. Between 1974 and 1983, their share of world steel consumption has fallen from 59% to 46%. In the Community consump-

[1] This file updates and replaces our No 16/82.

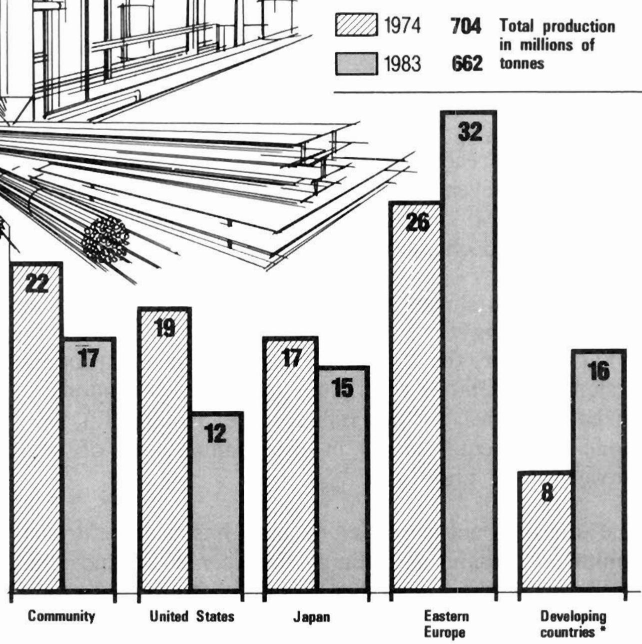
Steel production and consumption trends in the Community (in millions of tonnes)



* Estimate.
Source: Eurostat.



Shares of world production of crude steel (in %)



* Including China.
Source: International Iron and Steel Institute.

tion fell from 124 million tonnes to 100 million tonnes. This geographical shift in demand for steel has encouraged the development of local industries in developing or newly industrialized countries, such as Brazil, Mexico, China and South Korea. While remaining net importers of steel, these new producing countries have increasingly covered their own needs and established an expanding share in world production: 8% in 1970, 16% in 1983. During the same period, the share of industrialized countries fell from 66% to 52%.

- ☐ In a very slowly expanding world market, with competition forcing prices down, new producers have a number of advantages: modern and competitive plants, lower wages and, frequently, easier access to raw materials. In 1980 production costs in South-East Asia and South America were 15 to 25% lower than those in Europe or the United States. It has been estimated that the production of one tonne of steel takes an average of 7.4 man hours in the Community but only 4.5 man hours in Japan. Geographically scattered and lagging behind technically, the European industry has lost its competitive edge. Exports fell from 34 million tonnes in 1974 to 24 million tonnes in 1983.

- ☐ Despite the slide in production, steel capacity in the Community increased between 1974 and 1980, when it topped 200 million tonnes. The heady years of economic growth, and the seemingly good situation of 1973-74, encouraged the European steel industry to reactivate inefficient plants and launch a programme of expansion. When demand and production declined between 1974 and 1983, the inevitable result was an increasing under-utilization of the means of production. The Community industry was working at 87% capacity in 1974, 63% in 1980 and 57% in 1983. The optimum use rate is estimated at between 80 and 90%.

The consequences for the European industry were:

- ☐ A permanent imbalance between the supply and demand for steel, and, as a result, a slide in prices. Faced with slackening demand within the Community and the threat of permanent surpluses, European manufacturers stepped up internal competition. Prices fell sharply to the point where companies were no longer profitable. Between 1974 and 1977, prices fell by an average of 45%.

- ☐ A growing debt burden for the industry. The substantial financial losses caused by falling prices forces many firms to scale down or abandon investment plans drawn up to respond to changing market conditions. Governments intervened massively to write off losses. Public subsidies to steel firms spiralled out of control.

- ☐ A savage reduction in the number of steel jobs. From 796 000 in 1974, the number of steel workers in the Community fell to 480 000 in 1983, a reduction of nearly 40%. In the 1974-80 period alone, the reduction was 31%. The number of part-time workers also rose sharply to reach 99 000 or 21% of the work-force in 1983.

The steel industry in Europe: a decisive role for the Community

The signing of the Treaty of Paris in 1951 and the creation of the European Coal and Steel Community (ECSC) heralded a period of continuous expansion for the European steel industry. The abolition of customs barriers led to a rapid increase in the Community's internal trade in coal, which in turn helped to promote the prosperity and economic interdependence of Community countries. Trade increased by 129% in the first five years of the ECSC. National steel industries now export an average of 25% of their output to other Members States. By expanding markets the ECSC also fostered company mergers and encouraged the rationalization of production and increased productivity.

Within the present Community, steel manufacturing does not have the pre-eminent importance it enjoyed when the ECSC was founded. But it still represents an important part of the economy of most Member States. Steel still forms an important link in the production chain for a wide range of goods. Europe could not abandon steel making without increasing its dependence on the rest of the world, already acute in other areas such as raw materials, energy and information technology.

On the other hand, Europe cannot prop up steel production at any level and any price. The cost of a dear steel or subsidezed steel policy would be borne by other sectors of the economy, either through steel prices or taxes. There would also be serious consequences for the Community's relations with its chief trading partners. These countries would refuse to import steel products at prices reduced artificially by subsidies. They would also complain if selling prices in the Community were maintained at such a high level that lower price imports were shut out. In both cases the consequences would be extremely damaging. The Community's external trade accounts for nearly one-fifth of all world trade. Europe still exports more steel than it imports.

The structural nature of the steel crisis has made a profound restructuring of the industry inevitable. Plants must be modernized and capacity reduced. This is the only way to ensure the survival of a strong and competitive European industry capable of supporting itself financially. In the long run the aim must be to supply steel to the consuming industries at prices comparable with those paid by their competitors in the most efficient foreign countries. This is the only way to guarantee the survival of the largest possible number of jobs.

Restructuring poses a host of political, economic and social problems. The European Community has a vital role to play in solving them. Some Member States might well have been tempted to ride out the crisis by adopting national policies which would, in the long term, have been disastrous, such as the proliferation of State aids and the protection of the domestic market. A Community steel policy avoids such dangers and allows a coherent restructuring programme which will preserve the unity of the common market. Such a policy is also essential to deal with competition from other industrialized and new producing countries without resorting to protectionism. But a joint modernization campaign must be tolerable to all. The sacrifices forced by restructuring must be shared fairly, particularly in their social and regional consequences.

Community action

The recession forced great changes in the Community's role in the steel industry. Up to 1974 the ECSC provided a framework for increasing steel production and trade. Afterwards it became a weapon for regulating the market and promoting the orderly restructuring of national steel industries. The ECSC Treaty gives the European Commission considerable powers over investments by companies, State aids, production levels and selling prices. The finances available to the ECSC, the European Regional Development Fund and the European Investment Bank also allow the Commission to give concrete - although still, admittedly, inadequate - aid to the modernization of the steel industry, the redevelopment of regions devastated by the steel crisis and the retraining of redundant workers.

Since the crisis began, the Community has assumed an ever-expanding role. On the one hand, it has regularized the market to staunch the continuing deterioration in the finances of steel firms. On the other hand, it has encouraged the adaptation of plants and machinery to the new market conditions and the recovery of European competitiveness. At the same time, the Community has increased its assistance to steel workers and regions, alongside the efforts of Member States and within the limits they have laid down.

☐ Restoring the viability of steel firms: the Commission's main objective is to check the financial haemorrhaging of steel companies by regulating the market to improve prices and provide the funds needed for restructuring.

- When demand for steel is weak, prices fall and firms tend to increase production to try to cover their fixed overheads. In 1977 the European Commission persuaded major producers to enter into a voluntary agreement to limit steel production. Three years later the recession shattered the cooperation of manufacturers and prices tumbled. As a result, the Council of Ministers agreed in October 1980 to the declaration by the European Commission of a state of 'manifest crisis' in the steel industry. Under the ECSC Treaty, this declaration allowed the Commission to impose mandatory restrictions on steel production and deliveries in the Community. These restrictions are enforced in the form of quarterly quotas, for steel production, of which only a proportion can be sold on the Community market. The system, in force until the end of 1985, covers more than 80% of Community steel output.

- Parallel action is taken to control prices. Measures have been taken to ensure respect for ECSC rules which forbid unfair and discriminatory practices in setting prices and sales conditions. These measures also aim to persuade firms to increase substantially the prices of steel products worst affected by the collapse of the market. Since 1977 the European Commission has set minimum prices or given price guidelines, according to different products. Since July 1981 the rules governing prices and selling conditions have been extended to steel wholesalers. It is important to note that despite this system of price support, the Community's internal steel prices have remained lower than those in the United States and Japan. The Community's price policy has therefore not caused serious difficulties for steel consuming industries.

- The effectiveness of Community rescue measures for the steel market could have been threatened by massive or unregulated imports from the rest of the world. In 1977 an import monitoring system was established. Since 1 January 1978, the European Commission has published at regular intervals import reference prices, calculated on the production costs of firms in the most efficient exporting countries. This system is used to trigger Community anti-dumping measures when steel is imported at below the reference price. To maintain traditional steel trade flows, the Community has also entered into cooperation agreements with its trading partners. Since 1978 these arrangements have been renewed each year with the major steel exporting countries. The agreements take account of the demand for steel on the Community market and lay down price and quantitative conditions. Fifteen countries are involved, covering nearly 80% of Community steel imports.

By permitting the European steel industry to sell its goods at higher prices, these direct interventions by the Community help firms to adapt to the new market conditions. Community rules have played a large role in improving steel prices. Whilst remaining low because of weak demand, average prices have increased from 25% to 30% since the production quota system was introduced. Much of the benefit to firms has been swallowed up by increased production costs. But there has been a marked improvement in the health of the steel market which will help the Community industry to undertake or continue its restructuring. Cooperation between steel firms has preserved the unity of the single trading market, without significant alterations in traditional trade flows between Member States. Cooperation with third countries has allowed steel imports to be stabilized. On the other hand, limits on steel imports in the United States have damaged Community exports. The agreement reached in October 1982 permitted the limitation, but not the suppression of the threat of unilateral customs measures. By establishing a link between exports and demand on the American market, this agreement has caused a 27% drop on European steel exports to the United States.

☐ Promoting restructuring: market support measures have established a better balance between supply and demand. But the balance is an artificial one. Although necessary to staunch the financial haemorrhaging of steel companies, this is not a solution to the structural imbalance in the European steel industry. What is more, market support policies cannot be prolonged indefinitely without threatening to distort competition in the steel industry and other steel-consuming industries which have to compete on equal terms with firms in other countries. The gap between supply and demand in the steel industry can only be permanently narrowed by the restructuring of steel firms and the restoration of their competitiveness. To this end, the European Commission must ensure that restructuring plans put forward by companies and Member States are consistent with trends on the steel market. The Commission must also ensure that the financing of these measures does not infringe the Community's competition rules.

- Investments planned by steel firms must be notified to the Commission, which examines whether or not they are compatible with the overall objectives of financial viability and increased competitiveness.

- The Commission, with the agreement of Member States, has established Community rules for State aids to the steel industry. Such aid is, in principle, forbidden by the ECSC Treaty. But since 1980 they have been permitted on condition that they contribute to the restructuring of the steel industry, that they are limited in duration and that they do not create unacceptable distortions of competition. This system was strengthened in 1981 with the introduction of a stricter 'aids code' covering all public funding for the steel industry. At the same time, a specific timetable for the abolition of aids was established. All subsidies must cease after 31 December 1985. In the intervening period, aids are only permitted if linked to a clear restructuring programme designed to make the company concerned more competitive and restore its viability, without subsidies, in normal market conditions. The overall aim of this programme is to reduce the Community's production capacity and prevent increases in capacity for products which are not in increasing demand. Subsidies, where they are permitted, must not distort steel trade flows between Member States in an undesirable way.

  As part of the aids code timetable, Member States were obliged to notify their aid plans to the European Commission, together with restructuring proposals, in time for the Commission to make a decision before 30 June 1983. As it turned out, the original proposals put forward by Member States involved capacity cuts of less than 19 million tonnes in finished products. This was not enough to correct the imbalance between supply and demand. In November 1982 the Member States agreed in principle that there should be cuts of between 30 and 35 million tonnes. As a result, the Commission called for further capacity reductions to bring the total to a minimum of 28 million tonnes. To meet this target fresh restructuring proposals were required. The target will probably be exceeded. A number of closures of steel firms have gone beyond the Commission's requirement and beyond what was strictly necessary to return the industry to economic viability.

- The steel industry does not just receive national aids. The Community also contributes financially to the modernization of the industry. From 1975 to 1983 inclusive, steel industry investment has been backed by nearly 4 thousand million ECU[1] in Community loans. Of this, about 3.5 thousand million ECU came from the ECSC and 400 million ECU from the European Investment Bank. The Community also finances steel research programmes.

☐ Softening the social and regional impact of the steel crisis: the restructuring of the industry will eventually cause at least 100 000 more redundancies. The Community and its Member States must give priority attention to the redevelopment of the worst hit areas and specific help for redundant steel workers.

- The creation of new jobs in steel areas: between 1975 and 1983, the ECSC gave redevelopment grants totalling 1.8 thousand million ECU; projects financed in this way are expected to create 96 000 new jobs. Over the same period, the European Investment Bank gave 3.4 thousand million ECU in long-term loans for the development of infrastructure and new industries in steel areas. Grants to these areas from the European Regional Development Fund in the same period topped one thousand million ECU. The poor economic climate and the almost complete dependence on steel of many of these areas make redevelopment very difficult. The European Commission has urged that the available cash should be spread out in loans to small industrial projects, undertaken by existing or newly created small and medium-sized enterprises.

- Retraining: between 1976 and 1983 the ECSC gave more than 400 million ECU (two-thirds in the last three years) in grants to nearly 200 000 redundant steel workers. These grants have financed retraining programmes to make it easier for the workers to find new jobs; subsidies to firms who take on redundant steel workers; and bridging payments to workers between jobs. The ECSC also helps to finance early retirement schemes and, to a lesser extent, part-time and temporary working. Its contribution to programmes of this kind has totalled 274.5 million ECU to date. As a result over 100 000 people were helped to take early retirement between 1978 and 1982. In 1984 aids of this kind totalled 62.5 million ECU, the first tranche of a 330 million ECU programme for workers leaving the steel industry between 1983 and 1986.

△

The restructuring of the steel industry should be seen against the background of the transformation of European industry as a whole. The succesful moderniza-

---

[1] One ECU (European Currency Unit) = about £ 0.60, Ir.£ 0.72 or US$ 0.72 (at exchange rates current on 3 December 1984).

tion of this industry must be one of the Community's top priorities. The place of steel in the new industrial fabric of Europe will depend on its return to viability and competitiveness. An effective restructuring of this key economic sector will also influence the development prospects of the many other industries which depend upon it ■

Commission of the European Communities

Information offices (countries fully or partially English speaking*)

Ireland	39 Molesworth Street, Dublin 2 — Tel. 71 22 44
United Kingdom	8 Storey's Gate, London SW1P 3AT — Tel. 222 8122 — 4 Cathedral Road, Cardiff CF1 9SG — Tel. 371631 — 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 2058 — Windsor House, 9/15 Bedford Street, Belfast BT2 7EG — Tel. 40708
Australia	Capitol Centre, Franklin Street, PO Box 609, Manuka 2603, Canberra ACT - Tel. (062) 95 50 00
Canada	Inn of the Provinces-Office Tower, Suite 1110, 350 Sparks Street, Ottawa Ont. KIR 7S8 — Tel. (613) 238 64 64
USA	2100 M Street, NW, Suite 707, Washington DC 20037 - USA — Tel. (202) 862-9500 — 245 East 47th Street, 1 Dag Hammarskjöld Plaza, New York, NY 10017 - USA — Tel. (212) 371-3804

* Offices also exist in other countries including all Member States.

Office for Official Publications
of the European Communities
L-2985 Luxembourg

ISSN 0379-3133

Catalogue number: CC-AD-85-002-EN-C