COMMISSION OF THE EUROPEAN COMMUNITIES

COM(77) 688 final

Brussels, 9 December 1977

<u>RESTRUCTURING OF THE STEEL INDUSTRY:</u>

<u>METHODS AND ORGANIZATION</u>

(Communication from the Commission to the Council)

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RESTRUCTURING OF THE STEEL INDUSTRY: METHODS AND ORGANIZATION

The crisis in the steel market has highlighted two structural weaknesses:

1. The existence of surplus capacities in many branches of the steel industry. These surplus capacities are basically attributable to the unduly high investments which were made in the wake of the economic peaks in the years 1973 and 1974.

2. The decline in the abilities to compete with non-member countries, whether they be industrialized countries or even some developing countries, in which modern plants have been put up on economically advantageous sites.

The task of the restructuring policy is therefore twofold: to adapt capacities to the long-term trend in demand and to improve competitiveness by reducing production costs. There must be a parallel regional conversion and worker readaptation policy to ensure that in so doing job losses in the steel industry are offset by the creation of new jobs in the steel-producing areas.

Article 46 of the ECSC Treaty assigns the Commission the task of periodically laying down general objectives for modernization and long-term planning of manufacture. In addition, Articles 54 and 56 give it the financial instruments with which to carry out restructuring and conversion policy.

In the Spring of this year, the Commission began to outline the long-term objectives for the restructuring of the European steel industry. After the programme of work to this end had been discussed with the various interested parties concerned (government representatives, producers, workers, consumers and dealers), the long-term development of steel consumption in the Community and the foreseeable net exports were determined in the initial stage. The future maximum figures for steel demand forecast in this way set the limits of capacity for crude steel output and for the various rolled steel products. The provisional findings of the investigations are now available and are being discussed with all those concerned. These findings show that there are surplus capacities for crude steel of the order of 10-20 million tonnes.

As far as the various rolled steel products are concerned, surplus capacities are predominantly discernable in the case of wire rod, sections and hot-rolled wide strip.

The Commission has also ascertained the optimum breakdown of steelmaking processes by means of a study on the availabilities of scrap, sponge iron and pig iron.

These studies provide initial guidance on the restructuring to be carried out. From them are calculated indications as to the limits on future plant capacity and the breakdown by products on which the Commission is already basing itself in its opinions under Article 54 ECSC and its approach in dealing with State aid and deciding whether to provide aid itself. Since the beginning of 1977 it has as a rule given unfavourable opinions on investment projects which would lead to capacity expansion not matched by an equivalent capacity reduction.

In the second stage, the optimum technical and economic factors will be taken as a basis for determining the best for the individual regions. These optimum factors result from advances in steelmaking techniques or from the profitability of our main competitors. To quote one example, the optimum size of the blast furnace and other plant can be ascertained from the status of plant engineering. In this manner the most economically advantageous types of works can be ascertained. A comparison of these types of works with site conditions in individual areas, such as transport conditions for the delivery of raw materials and dispatch of finished products, pinpoints the products best suited to a given site, the steelmaking processes and the maximum capacities. It is obvious that the sum of the capacities and the steelmaking processes for the individual sites must not exceed the capacity limits set for the Community.

In the third stage an answer must be found to the question as to how to attain structures of the individual regions defined in the earlier work.

To answer this question, a knowledge of the most important economic and technical data on works in the Community is required. On the basis of this data the Commission - with the collaboration of experts, as necessary - will analyse the weak points and the possibilities of structural improvement. In this connection there are a number of questions to be clarified by the undertakings, the Member States and the Commission, such as:

- which plants should be closed down?
- what specialization is necessary?
- what cooperation should there be between the undertakings?
- what investment on modernization is necessary?
- how can employment be maintained as far as possible without competitivity suffering as a result?
- how will inter-regional balance be affected?

All the parties concerned will help to answer these questions. It is obvious that thes problems can only be solved if fruitful collaboration is established between the Commission, the governments, producers and workers.

The results so obtained will enable the Commission, in cooperation with the Member States and after hearing the ECSC Consultative Committee, to determine the restructuring programme and see to it that the necessary reconversion and readaptation policies are also put in hand. The programme will have a Community character, so as to establish a coherent solution for the Community as a whole.

At the same time, the Commission will investigate the repercussions of the restructuring on future employment in the steel industry. These estimates serve as guidance for the industrial conversion to be carried out in the individual regions, the aim being as far as possible to achieve a balance between redundancies on the one hand and the creation of new jobs on the other.