COMMISSION OF THE EUROPEAN COMMUNITIES

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EXTERNAL ASPECTS OF TRADE IN STEEL

(Commission communication to the Council)

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OMMISSION
OF THE EUROPEAN
AN COMMUNITIES

COMMISSION COMMUNICATION TO THE COUNCIL

Subject: EXTERNAL ASPECTS OF TRADE IN STEEL

1. Background

In the middle of last year the Commission was obliged to acknowledge that the European steel industry was in a situation such that the attainment of the objectives referred to in Article 3 of the Treaty, notably the modernization and restructuring of production, improved conditions for workers and the ensuring of an orderly supply to the common market, was in grave jeopardy.

In view of the drop in demand and in production capacity utilization rates, the collapse of prices and the deterioration in the financial situation of steel firms, and in order to avoid irreparable damage to the structure of the European steel industry, the Commission declared a state of manifest crisis, for the first time in the history of the ECSC, and introduced compulsory measures under Article 58 ECSC.

Since the conditions that led to the declaration of a state of manifest crisis have not changed appreciably during the current year, the compulsory measures adopted under Article 58 ECSC have in general been extended until 30 June 1982 and in addition have been accompanied by a much stricter discipline in the area of price surveillance (Decisions 1834/81/ECSC and 1836/81/ECSC and Recommendation 1835/81/ECSC).

Accordingly, the Commission proposes, broadly speaking, to reintroduce for 1982 the external measures already in force.

2. Reminder of the external measures

(a) Functioning of the external instruments

Depending on whether or not the Commission has concluded arrangements with the non-member supplier countries, imports are subject to the arrangements system or to basic prices. Both of these are backed-up by forward and retrospective statistical surveillance measures.

The Commission has regularly adjusted basic prices according to the increase in production costs in the supplier country or countries where normal conditions of competition apply in respect of steel products, or has amended those prices in accordance with exchange rate changes. The most recent amendments were published on 4 July and 1 August this year. The Commission can thus verify whether the imports from non-arrangement countries are taking place under conditions of unfair competition.

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For 1981 the Commission has concluded arrangements by exchange of letters with 14 of the Community's main non-member supplier countries. Some 75% of imports are covered by arrangements. At the beginning of the year the Commission applied a 15% reduction to the quantities negotiated in 1980 in respect of those partners whose arrangements specified actual quantities. This 15% rate of reduction was the subject of a positive correction in the course of consultations with the partner countries in September in the light in particular of the fall in real consumption in the Community market. The Commission has held regular consultations with its partners in order to ensure compliance with all the provisions of the arrangements; it has also consulted the Member States at the weekly meetings of the Steel Liaison Committee on various questions relating to the administration of the arrangements.

The surveillance system has been extended until the end of 1981 and brought int line with the changes resulting from the conclusion of the arrangements and their provisions. There have been problems with regard to compliance with the surveillance system by certain Member States; in 1982 these provisions will have to be observed more strictly.

b) Effects of the measures

During the first half of the year compliance with the arrangement price rules was affected by the depressed level of prices. As a result, this provision of the arrangements was not satisfactorily observed by non-member country exporters, who are entitled by virtue of the arrangements to benefit from prices enabling them to enter the market via a margin of penetration. In July/August, the Commission invited all the partner countries to respect the new situation as regards prices on the Community market and to correct their low-price offers.

It is only as a result of compliance with the surveillance system by all the Member States that the Commission will be able to verify whether the partner countries are respecting that new situation. For the time being, and on the basis of incomplete data, a certain improvement has since become discernible.

Compliance with the basic prices on importation has not been very satisfactory. In this area, there have been numerous cases of undercutting for most of the products subject to the system, including semi-finished products, pig iron and ferro-manganese.

With regard to quantities, there has been a balanced development of imports and exports from and to the EFTA countries; it should be noted, however, that for the determination of the quantitative aspects account was taken of the trend already observed in 1980. The arrangements with the above countries include the principle of reciprocity. For the other arrangement countries, the beginning of the year showed a marked drop compared with 1980, with the result that the reduced quantities fixed for 1981 will to a large extent remain unused, even though the second half of the year showed some increase in imports. This trend is the result of the depressed situation of the Community steel market in 1981.

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3. External aspects of the ECSC steel plan for 1981

(a) Basic prices

The Commission intends to revise the basic prices at the end of the year to reflect the increase in production costs and to take account of the exchange rate changes that took place on 4 October. The Commission will have to exercise strict surveillance in 1982 of the imports subject to basic prices.

This surveillance will be possible only if the national administrations forward more comprehensive information more rapidly. Only on this basis will it be possible for the Commission to detect imports that are coming in under unfair conditions of competition and take the necessary measures.

The Commission feels that in the determination of the range of products to be covered by the basic prices - and thus by the external measures - consideration must be given to the pros and cons of maintaining in the system or excluding ferro-manganese and pig iron. Consideration must also be given in this context to the statement entered in the minutes of the Council meeting of 24 November 1980 (PV. CONS. 53-SID 168).

The three main criteria are whether the products are covered by the internal measures, whether a restructuring effort has been carried out - followed by an improvement in the competitive position - and whether supplies are assured.

Ferro-manganese and pig iron are not covered by the internal measures.

With regard to ferro-manganese, it can be seen that despite the restructuring projects recently carried out no improvement is discernible in the competitive position compared with this industry in non-member countries.

As far as supplies are concerned, there is currently over-capacity in the Community, and, in the event of difficulties in the future, capacity and production could be developed rapidly. The largest suppliers at present are Norway and South Africa, and there are also other producers of ferro-manganese.

In support of the retention of this product under the external measures, it must be remembered that ferro-manganese is an important constituent in the steel-making process. Production in non-member countries is being carried out under conditions that are increasingly advantageous compared with those in the Community. As a result, imports are providing an increasing proportion of the Community supply. This explains why this sector is in difficulties in the Community, with adverse consequences for employment.

The said difficulties are further aggravated by the very low level of activity in the steel industry, which is being further reduced by the measures adopted under Article 58 ECSC and by the consequences that this situation has had on the price level for this product in the Community.

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As regards pig iron, the market situation for foundry pig iron has for a number of years been characterized by considerable over-capacity at world level. This is why the restructuring of this sector should continue. It should be noted, however, that following the restructuring operation carried out in the period 1964 - 70 there are now only a relatively limited number of firms producing pig iron for marketing (reduction from 44 to 8). As regards the effectiveness of the external measures in promoting restructuring, it can be seen that there has been no positive effect.

With regard to security of supply, it will be noted that the world market is relatively limited. The trend in imports of pig iron gives an erratic picture. Imports of foundry pig iron account for between 15% and 20% of the purchases of new pig iron. In recent years, moreover, an increased regularity of supplies from non-member countries has been observed. Assuming that pig iron was maintained in the system, one could expect an increase in scrap consumption in foundries because of the excessive price of pig iron and that integrated foundries would be at an advantage compared with independent foundries.

As an argument in favour of maintaining foundry pig iron production in the Community, reference should be made to the need for regularity of supplies; at the same time it should be stressed that market penetration increased in 1980. The difficulties faced by this sector, particularly from the employment viewpoint, should also be borne in mind.

In any event, the two products - ferro-manganese and pig iron - must continue to be covered by the forward surveillance of quantities.

As far as semi-finished products are concerned, the ineffectiveness of basic prices is clear; these products are directly absorbed by the Community steel industry and the Community has an interest in obtaining supplies at the best prices. However, in view of the considerable difficulties of the Community steel industry and the interest it has in maintaining the system, and in view of the crisis measures applicable during the first half of 1982, the maintenance of these products in the system is for the time being justifiable.

(b) Steel arrangements

The existing arrangements are based on uniform principles, but are adapted, in form and more specifically in their quantity provisions, according to the particular relationships that exist between the Community and its partner countries. This should not be changed.

The main provisions of the Arrangements should likewise be continued without change for 1982. The following are the essential features :

- An obligation to respect the price discipline
- Community producers are forbidden to align their prices on prices offered by arrangement countries
- quantity provisions
- the maintenance of traditional trade flows while respecting a spacing of exports in time ; regional distribution and the product-spread of exports to the Community
- the application of basic prices to indirect imports and the counting of such imports against the agreed quantities
- the exclusion from the coverage of the arrangements of temporary imports for hire-processing on the condition that the ownership of the product does not change
- special provision for imports of steel for use in shipbuilding and repair-yards
- consultation clause
- suspension clause.

With regard to the field covered, the possible exclusion of ferro-manganese and pig iron from basic prices would mean their exclusion from the scope of the arrangements; even in this case, however, the Commission proposes that these products should remain covered by the consultation clause to ensure some control over the trend of imports; they would be excluded from the price obligations in the arrangements with the state-trading countries but would continue to be covered by the quantitative obligations; the said products would remain subject to the forward surveillance of quantities.

As regards the countries concerned, an effort should be made to conclude arrangements for 1982 with all the countries covered in 1981. The main provision of the arrangement with Brazil was a mutual commitment (prices and quantities) for pig iron. In this case, the Commission is proposing, should pig iron be excluded from the external aspects, an exchange of letters providing for regular consultations on the trend of pig iron imports, without there being any commitment on either side, and the continuation of Brazil's commitment on the observance of basic prices for ECSC iron and steel products.

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On the quantitative aspects, the Permanent Representatives Committee would be invited to set the limits for 1982 after the matter was considered in the Steel Liaison Committee. The principles in force would be applied: the new quantities should take account of the trend of consumption in the Community. The Community must follow the guiding principle of fair burden-sharing : on the one hand, Community producers must not be treated less favourably than non-member suppliers to the Community market and, on the other hand, non-member countries will not be discriminated against compared with Community producers. A clause would be added providing for consultations in mid-1982 at which an adjustment in line with the real market trend would be possible for the second half of that year.

In the negotiations with certain partner countries, allowance must be made for their special contractual relations with the Community. Accordingly, the arrangements with the EFTA countries come within the framework of the free-trade agreements. The arrangements with the EFTA countries, as with Spain, provide for reciprocity. That is why it is necessary to maintain the regular consultation arrangements vis-à-vis that country. It should also be remembered that the form adopted in the arrangements with regard to the quantitative obligations of the EFTA countries and Japan would make it possible to negotiate and reach a conclusion with those countries very rapidly.

As soon as the forecasts for the Community market trend in 1982 are available, the Commission will present a proposal on the figures to be adopted to the Permanent Representatives Committee, after examination in the Steel Liaison Committee. The negotiations with the partner countries would be finalised on the basis of the Permanent Representatives Committee decision.

To ensure the proper functioning of the arrangements in 1982, all the forward and retrospective provisions of the recommendations must be respected by the Member States; in particular, notification of all violations of the price rules must be given without delay.

4. Procedure

The negotiations with the partner countries will be conducted by the Commission in agreement with the Member States within the framework of the Steel Liaison Committee. The texts of the arrangements will be submitted, before conclusion, to the Permanent Representatives Committee, in particular to obtain assent for the prohibition of price alignments.

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5. Commission proposal

In conclusion, the Commission requests that the Council give its agreement to the following :

- in line with the OECD declaration, the Commission will propose to certain countries which export steel to the Community that, in order to avoid disturbances on the Community market, they should conclude bilateral arrangements with the Community involving price discipline. At the same time, assurances will be given on the maintenance of traditional trade flows, allowance being made, however, for any possible reduction in consumption foreseen for 1982 and also for the anti-crisis measures in force pursuant to Article 58, ECSC, which expire on 30 June 1982.

- As soon as the forecasts for the development of the Community steel market in 1982 are available, the Commission will present to the Permanent Representatives Committee its proposals on the quantitative aspects of the arrangements with the partner countries for which figures have to be agreed, the said proposals first having been examined by the Steel Liaison Committee.

- The Commission will report regularly to the Steel Liaison Committee on the negotiations. The Committee will examine any questions that arise, with a view to finding appropriate solutions.

- Questions that cannot be resolved by the Steel Liaison Committee will be referred to the Permanent Representatives Committee.

- The Commission will submit the texts of the arrangements to the Permanent Representatives Committee before they are concluded.