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PROBLEMS IN THE STEEL INDUSTRY

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A. THE CRISIS AND ITS EFFECTS

The year 1975 was marked by an economic crisis unprecedented since the last war. This crisis affected the whole of the economy but affected the iron and steel industry in particular; further, it had a greater effect on the steel industry in Europe than on major steel industries elsewhere. Inside the Community, production has for too long exceeded the real demands of the market and exports have fallen as a result of economic difficulties in the importing countries. On the other hand, although imports have remained at a very much lower level than exports, they have nevertheless been quite significant.

The recession on the steel market has had the following effects: (comparison with 1974 which was a particularly good year for the iron and steel industry) - a decline in the utilization of capacity from 85 to 65%; a 20% drop in volume produced; a precipitous fall in prices of about 35% in the Community, and, in some cases on the international market, of more than 50%. In a good many companies, this meant that prices no longer even covered variable costs.

Employment was seriously affected. Although it was possible to limit the number of full-time unemployed and avoid mass redundancies, this was only achieved at the double cost of extensive short-time working and a very heavy increase in labour costs for the companies concerned.

The crisis had a big impact on the steel companies' financial position. At some points some of them were losing around 10% of their paid-up

capital a month. Finding the finance to carry out even essential investment projects became almost impossible. Some companies were forced into contracting long and medium-term debts of intolerable size.

During this period companies reacted very differently from the way they would have reacted to normal commercial competition, and this helped to aggravate the crisis.

B. ACTION TAKEN BY THE COMMISSION DURING THE CRISIS

In the main, the Commission made use of the indirect means of action suggested by the Treaty. It used the Forward Programmes as the pivot of its policy to bring about, above all, a better tailoring of steel supply to actual demand. The Commission thereby contributed to a better balanced market.

In parallel, the Commission set up arrangements for rapid notification of data, enabling it to follow more closely the situation as regards production, employment and imports. The Commission provided a great deal more than in normal times in the way of investment loans.

In bilateral and multilateral talks with the main steel trading partners, the Commission worked to bring imports from these countries into line with the capacity of the Community market to absorb them, while at the same time ruling out unilateral measures to restrict imports.

Finally, the Commission submitted to the Consultative Committee and to the Council, a document on the advisability of introducing minimum prices in the steel industry. In view of the development of the general economic situation, the need to continue with such consultations proved to be less urgent.

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The history of the crisis demonstrated that the direct means of action in the Treaty (production quotas, import restrictions and minimum prices) are difficult to set up. There is no doubt that, by using indirect means of action, in particular the Forward Programmes, the Commission helped to bring supply and demand nearer into line, thereby braking the price fall. However, on future occasions, the Commission's actions can be greatly strengthened if its methods are improved, in cooperation with all parties concerned.

Contacts with third countries did yield satisfactory results as regards imports.

An equally severe crisis may arise sometime in the future. The Commission must, therefore, give itself the powers needed to take measures to help restore a more satisfactory market, and to enable undertakings to face up to the crisis under better conditions.

Such is the aim of this document. After undertaking the necessary consultations, the Commission will take the measures referred to herein.

C. PERMANENT MEASURES

1. Analysis and monitoring of the market

There must be permanent statistical monitoring of the steel market. This can be done on the basis of faster analysis of the statistical data supplied periodically to the SOEC, and could be supplemented by breaking down data on orders by consumer sector, on orders by third country and on receipts and costs.

This analysis of statistical data must supply an up-to-date picture of the supply and demand position on the steel market.

An advanced econometric model would make it easier to detect, on the basis of the fundamental structure of the Community steel market, the first signs of a cyclical imbalance and would, thus, provide the Commission with an instrument giving a faster and clearer picture of the real market situation.

2. Investments

The magnitude of any crisis depends primarily on whether it is possible to prevent an imbalance between the supply and demand of steel in the future.

Should need be, the Commission can make use of one of the means for correcting this imbalance, by giving opinions on the facts revealed by its enquiries, and its General Objectives for Steel*.

*The current survey on investments indicates that companies have recently revised their investment projects so that their plans now coincide better with the forecasts in the General Objectives for Steel 1980-85; there is therefore less risk of surplus capacity in the future.

The Commission can, should the need arise, extend its influence by adopting less non-committal positions on investment projects (as regards the particular case in issue or the sector in general) where excess capacity can be foreseen. In particular, the annual survey on investments could provide an opportunity for closer contacts with the steel industry, and for discussions on the foreseeable development of capacities, with a view to better coordination of investment intentions. The regional and social implications of projected investments would also be borne in mind.

As part of the forward agreement between the steel industry and the Commission, the latter can try to prevent investments liable to provoke imbalances from becoming settled plans.

The Commission's opinions on investments must be published more widely to interested parties. This will improve the impact.

In order to encourage a better balance between steel supply and demand, the Commission ought to make use of its loan policy to facilitate joint investments in heavy production plant, although of course the rules of competition of the Treaty would have to be borne in mind. The Commission should also encourage such moves towards rationalization as would achieve a better balance of supply and demand.

D. CRISIS MEASURES

Making use of the direct means provided for in the Treaty to cope with a crisis (production quotas in Article 58, minimum prices in Article 61), is necessarily a slow business as these procedures are so cumbersome.

Accordingly, we need to find means to cope with this inevitable slowness, in order that, when a crisis arises, steps can immediately be taken to contain the worsening situation. As soon as certain key indicators, defined in advance, are recorded, the Commission should apply the suitable procedures. These indicators would be either unfavourable production forecasts or unfavourable unemployment forecasts, a slowdown in orders, a drop in the rate of capacity utilization, abnormal patterns of stocking, or an abnormal and long-lasting reduction in company receipts, from sales inside the Community which would critically impair the normal correlation with costs.

A prolonged drop in prices on the international market could be taken to show the need for contacts with producers in non-member countries.

1. Production

Experience shows, that during the last crisis the revamped Forward Programme helped to adjust supply to real demand, and also helped to check the worsening of the market. Accordingly it is important to gain the maximum possible benefit from the Forward Programmes, which are prepared with the help of producers, unions, users, merchants and government representatives. For this purpose, a more finely-tuned econometric forecasting model is in preparation.

When the Commission has so decided on the basis of these cyclical indicators, there should be a greater degree of compulsion in the Forward Programmes.

The production and delivery tonnages published by market in the Forward Programmes should be broken down by the Commission to company level.

The companies would be invited to enter into individual undertakings with the Commission to the effect that they would comply with the production levels given in the Forward Programmes.

The question arises whether the Commission should not ask the national trade associations, during the period of application of these measures, to collaborate in the balanced and fair application of the tonnages fixed.

The measures introduced would be subject to a strict time limit and would be cancelled by a Commission decision. The Commission would then make sure that the usual rules of competition would once again apply.

2. Prices

When production drops, it does not necessarily follow that firms' receipts also drop. However, when receipts drop below the level described in Article 3(c) of the ECSC Treaty, this implies a worsening market.

The Commission must be in a position to receive the information on company receipts needed to give the guidance thought most appropriate to counteract such deterioration.

If the fall in prices inside the common market was due essentially to low price imports from third countries, the Commission ought to give consideration to employing the measures required by such a situation and ought, in particular, to make contacts at international level as it did in 1975.

If need be, the Commission may publish indicative minimum prices within the common market as a preventive measure before any later recourse to mandatory minimum prices as referred to in Article 61 of the Treaty.

E. RELATIONS BETWEEN THE COMMUNITY AND THIRD COUNTRIES ON THE STEEL MARKET

Since the 1975 crisis there has been signs of moves by some third country governments towards either some kind of worldwide orderly marketing agreement or an international steel charter.

Because of the growing interdependence of the major steel industries in the world steel economy, the Community ought, where appropriate, to take part in joint efforts by the main producing countries to find solutions to problems which arise at world level.

There can be no question of the Commission's joining in endeavours to limit world free trade in steel products. It would, therefore, be vital to seek after greater international cooperation, in particular to overcome crisis situations.

Such consultations could be useful in ensuring better exchange of information on investment and production forecasts. Information of this kind, at international level, on the various companies' plans would help to prevent duplication of effort and over-capacity and would, therefore, contribute towards a better balance between world supply and demand.

F. SOCIAL AND REGIONAL PROBLEMS

When there is a crisis, an overriding concern is the maintenance of employment levels. The Commission intends to examine, with Member States and the various interested parties, in particular both sides of industry, the best means of making it possible to resolve this problem.

Although the social effects of the recent crisis were felt throughout the whole of the Community steel industry, some regions with structural weaknesses suffered more than others. The Commission is ready to contribute towards a detailed study of the economic and social conditions under which the reconversion of such regions should be carried out.

Aware of these problems, the Commission is preparing new guidelines on reconversion policy and recently consulted the ECSC Consultative Committee on this subject¹. It will also inform the Joint Committee on Steel of its proposals.

¹See Resolution adopted by the ECSC Consultative Committee on 10 June 1976.

The expansion of Community aid for industrial reconversion could give further impetus to the necessary modernization of the steel industry.

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