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COMMON STEEL POLICY

Technical Annex

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The following text attempts to give an answer to the question of the application of the new guidelines in the field of the common steel policy. Here a discussion of the technical details has been deliberately put aside in favour of a description of the most important elements of the methods to be used.

A. Economic indicators

On the steel market reversals of trends generally occur so suddenly that most statistics, which in any case only reflect past occurrences, reveal the fluctuations far too late. Expediting these retrospective statistics on incoming orders and order books give some indication of the forward situation. It is therefore important to improve these statistics and to find appropriate methods of interpreting them (e.g. breakdown of orders into normal seasonal movements and cyclical components).

Statistics on steel production, steel consumption, stock levels, employment, external trade (exports, imports) and utilization of capacity are all data that do not generally reveal changes in cyclical trends until it is too late. These indicators must therefore be estimated in advance. The estimating methods used to prepare the forward programmes are suitable for this purpose. The system of economic indicators to be set up will only provide a genuine early warning system if it can indicate future developments.

In addition to the above-mentioned statistics, the actual prices (in the Community and for export) and some cost elements (ore prices, scrap prices, wage costs, energy costs) should be added to the planned system of economic indicators. As forward estimates are not feasible here, a reliable reporting system should be introduced between the Commission and the enterprises which should be as up to date as possible.

Various macro-economic indicators can of course be added to these steel-specific indicators. As soon as the first signs of a depression appear, the economic indicators in question should be collected at least every two weeks. As soon as certain threshold values, which will be fixed in consultation with the different interested groups including representatives of the Governments, the Commission should occupy itself so rapidly as possible with the state of the steel market in order that the appropriate decisions may be taken should the occasion arise.

B. Forward Programmes

a) Forecasting methods

In the last depression, the forward programmes made an important contribution towards stabilizing the steel market. They would have been even more effective had the downswing been detected at an earlier date and predicted more accurately. The methods used are, however, incomplete and outmoded in many respects. The results of our estimates are therefore unsatisfactory : in early 1975 the start of the depression was not detected for a long time. Both the low of the depression in the summer of 1975 and the recovery early in 1976 were greatly underestimated. The present poor state of our forecasting methods make it essential to better them. The relevant Commission departments have already started this task with the co-operation of several scientific institutes. The focal points of these studies are the improvement of the forecasting of future activity in individual sectors of the fabricating industry (on which the steel industry is of course dependent) and the forecasting of changes in stock levels.

This work will not be completed before the end of the year and consequently nothing can as yet be said about the results, but it should prove possible to bring the margin of error down again to the much smaller margin attained in the sixties. On the other hand, it should be pointed out that however subtle the methods used it will never be possible completely to rule out the occurrence of estimating errors. Experience shows that the estimating

errors are greatest when the changes in cyclical trends are the most acute. It is therefore essential to provide for the possibility of subsequent corrections to the programmes.

The estimates will at first be broken down for each country of the Community into real consumption, stock changes, deliveries and receipts from other countries of the Community, import and export from third countries as well as crude steel production.

b) The forward objectives at enterprise level

The first question is which is the most effective form to give to these programmes. The production of crude steel is only remotely related to the development of the market. Thus it is necessary to show in the forward programmes deliveries analysed by the major product groups of the ECSC Treaty.

The forward programme will furnish the rate of adaptation of the deliveries to the forecast demand; these percentages will be determined by the Commission by country and by major product group.

In order that the Commission can carry out such calculations each enterprise must report to the Commission its deliveries by product within the Common Market and for export to third countries.

The percentages for the adjustment of supply to demand result from the relationship between the reported deliveries in a reference period and the estimated demand. They permit the Commission itself to determine the forward objectives by company. The forward objectives will be communicated by the Commission directly to each enterprise.

The enterprise can report to the Commission any difficulties which may arise in arriving at this objective.

The Commission will follow with care the observance of these objectives whether determined in the above manner or eventually adjusted.

In period of depression and for considerations relative to the safeguarding production and employment the enterprises can, if the case arises, produce steel for their own stocks; those stocks can be sold when the economic conditions become more favourable.

The total system underlines the non-restrictive character of the engagement taken by the enterprises with the Commission and the elasticity with which it can be put into action under the authority of the Commission.

Government representatives, the associations of the enterprises, the trade unions, the consumers and merchants will be closely associated with the development of the system of analysis and surveillance of the market, the improvement of the forecasting methods and are consulted in the course of the preparation of the forward programmes.

C. Minimum reference prices

The fixing of minimum reference prices is envisaged by the Commission as defined in the document (COM (76) 543 final).

It is actually studying the mode of application of such prices. This must especially take account of a certain number of difficulties, some technical, some economic, related to the fact that sales from stock and imports are not included. The danger of complaints concerning dumping must be also kept in mind. Further it must be underlined that the adjustment of production to demand already constitutes an important element of stability and indeed for the recovery of steel prices.

D. International Activities

The greater is the success of the forward programme in relation to the stabilizing of prices within the Community the more attractive it will be for third country producers to export to the Community. However, increasing imports could tend to undermine the stabilizing effect of the forward programmes. For these reasons it is necessary to envisage :

- a regular exchange of information
- a consultation and cooperation process for periods of depression.

With respect to the exchange of information this should cover not only short-term market data but also long term development trends. Inland demand, external trade and internal deliveries are above all counted in the domain of market data and in such cases not only historical data but also forecasts are included. The Commission publishes such information regularly in its forward programmes as well as in its Statistical Bulletins. Through the exchange of information in particular on inland demand and external trade conditions should be established whereby all the participating market partners can taken account in their export planning of the economic development in the receiver countries. The data exchange would be purely of an indicative character.

In respect of the long term trends the evaluation of the most recent long term forecasts out of USA and Japan and their comparison with our General Objectives for Steel show that these estimates include considerable double and triple counting of one and the same demand, this amounting to at least in total some 15 million tonnes of crude steel. When through mutual enlightenment of the market partners such estimates can be made more compatible a contribution to the establishment of a better international equilibrium between the expansion of capacity and the long term development of steel demand can be made.

The consultation and co-operation process can be set in motion at the request of each market partner when in periods of recession imports do not adjust to the declining steel demand and serious disturbances of the steel market take place. The Commission would in these cases discuss with the governments of the countries concerned with the aim of persuading these countries to behave in a manner more fitting to the market conditions. This process would of course be two-sided, i.e. it could not only be used by us against our market partners but also in the other direction against the Community. This proposed consultation and co-operation process contains no binding commitments but consists only of voluntary collaboration and is restricted to definite periods of recession.

The above named measures cover countries with a liberal commercial policy and within this it should be possible to restrict them to the most important trading partners. Among these countries the Community has a specially close relationship with the EFTA countries surrounding it. It remains to be investigated whether this factor should be taken into account in a suitable manner. A suitable framework for the proposed exchange of information and the consultation and co-operation process remains to be established.

Several member states possess quantitative import restrictions against the state-trading nations. In addition a common process for consultation, control and safeguard measures exists. These instruments offer the possibility of a certain protection of the Common Market against imports from state-trading nations.

B. Investment and credit policy

The General Objectives for steel give a necessary maximum capacity of 215 million tonnes crude steel for 1980. The last investment survey, however, indicates that maximum capacity will be 220 million tonnes, although about 228 million tonnes were expected a year and a half ago. This shows that investment plans have been cut back in the meantime. As the threat of surplus capacity is therefore greatly reduced (only 5 instead of 13 million tonnes), no further measures to establish a long-term balance in the case

of crude steel should be taken for the time being. The remaining rise in capacity results from a number of investment projects designed primarily to replace outdated plant. For reasons of competitiveness these projects should be carried through. In the case of heavy sections and particularly wire rod the danger exists of a long-term capacity surplus. This was indicated in the General Objectives. A better adaptation to demand can be achieved above all by the closure of old plants as well as common investments by a number of companies instead of the carrying out of too many simultaneous investments.

From this point of view it is desirable that regular discussion on the results of the investment enquiry should take place in order to facilitate the adaptation of capacity to demand. Through such a profound exchange of views the existence of disequilibria can be avoided and the opinions of the Commission on investment notifications given a greater weight.

In addition to the adaptation of capacity to demand the increase of productivity possesses a special importance. This results from the fact that in 1975 the Community steel industry saw a further decline in its share of the world market, while other countries, especially Japan, managed to increase their shares. Japanese steel exports are today almost twice as high the Community's steel exports.

The Community undertakings covered by the survey are constantly pointing out that the depressed level of world market prices does not sufficiently cover their costs. One of the reasons is to be found in the lower productivity in our steelworks. Our investment and credit policy should therefore aim to help as far as possible to increase productivity in the works. This could also help to alleviate the consequences of a future depression. The General Objectives already give this as a priority aim in our credit and investment policy.

F. Social and Regional Politics

In the 'General Objectives Steel 1980-1985' attention was drawn to the fact that employment in the Community iron and steel industry would probably experience a clear reduction in certain areas through to 1980. In some areas this reduction of employment could, as in the past, be achieved by normal wastage (retirement and voluntary resignations). It is an objective of regional policy to provide alternative employment opportunities in such circumstances, to maintain economic activities in areas so affected.

It should be possible in the larger enterprises to transfer some of the workers affected by the closures or rationalisation measures to the posts freed by such wastage. In order that such measures may be successful they must be prepared in advance. The dispersion over time and the vocational retraining of the workers to be transferred are the essential conditions of their success.

The further employment within a works is however not always possible. This is above all the case when a complete enterprise or a works closes. In such circumstances the impact on the local economy can be particularly severe.

The Commission has made adaptation conventions with the affected member states in order to facilitate the participation of the worker in courses for vocational retraining, the making up of lower paid employment and the transfer to a job at a distant location, or reduce the impact of temporary unemployment.

These conventions established in application of Article 56 of the ECSC Treaty are modified on request of the governments and normally after discussion with the interested parties to take account of the changing social conditions in the region.

On the basis of these conventions the High Authority and the Commission have given up to the end of 1975 credits to the amount of 237 million UA to the benefit of 449,000 workers of which 24,2 million UA (10 %) were awarded to 93,000 steel workers.

The share of credits destined for the steel works is increasing markedly at the present time. In 1975 the adaptation credits for steel industry reached 17 % of the total (3.4 million UA from 20). For 1977 13 million UA or 52 % of the total amount of 25 million UA have been estimated for the

workers in the steel industry and iron ore mines. This amount based on estimates by the member states shows the willingness of the Commission to provide the necessary funds for steel workers in difficulties.

In those areas where the reduction of employment in the steel industry cannot be accomplished by changes of job, and by retraining alone, the Commission will give priority to facilitating the necessary industrial restructuring on the basis of Article 56 of the ECSC Treaty whereby alternative employment opportunities can be created, by financing investments in new activities.

The Commission, for its part, will study with the member countries and the social partners the problems which the steel industry may be confronted with in the domain of employment whether at the level of the steel industry in total or of certain steel regions which might be particularly by the crisis.

To this effect, at the initiative of the Commission, the Mixed Committee 'Steel' has recently retaken up its activities and has constituted several working groups which have been charged with the examination of the different social and regional aspects of the steel policy and more particularly those which could affect the employment of the steel workers.
