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STEEL RESTRUCTURING POLICIES

(Communication from the Commission to the Council)

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COMMUNICATION TO THE COUNCIL

Subject: Steel Restructuring Policies

Foreword

The Council, at its meeting of 30 October 1980 decided to discuss steel restructuring in the context of the decision to adopt the Article 58, ECSC manifest crisis measures. This Communication has been prepared for the Council's meeting on 3 March 1981. It is in three parts:

- Assessment of the situation
- Objectives and constraints
- Community policies.

The Communication refers to the Commission's first report on the implementation of the Decision concerning State Aids (1) and to the Annex to this communication on the social aspects of steel restructuring policies (2).

This paper is also supported by two working papers of the Commission's services which are being addressed to the Council as well (3).

The Commission will continue to review progress and problems in this area periodically with the Member States' Directors-General for Industry, without prejudice to the provisions of the Treaties.

The ECSC Consultative Committee will be consulted on this document.

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- (1) First report on the implementation of Decision No 257/80/ECSC establishing Community rules for specific aids to the steel industry, COM (81) 71.
 - (2) See Annex.
 - (3) Analysis of Certain Aspects of Steel Restructuring Policies, February 1981;
Report on Restructuring in the Steel Industry, February 1981.

A. Assessment of the Situation

During the past 5 years substantial efforts have been made by the Community and the Member States to adjust the structure of the European steel industry to the new economic conditions. Thus, the capacity targets for 1980 which were 214 million tons in 1977 have now been brought down to 201 million tons. Furthermore restructuring plans have been implemented in several Member States either at the initiative of the public authorities or the enterprises themselves. At the same time there has been a major financial effort to modernise and rationalise the enterprises which has allowed productivity to increase by some 26% during the course of the past 5 years. The fact that the gravity of the present situation has been recognised by the Declaration of the Manifest Crisis only goes to show that, overall, these efforts remain insufficient and that a reinforcement of Community policies is called for.

The main reasons for the crisis in the Community are the deterioration in international competitiveness and the fall in demand, which used to increase, but which peaked in 1974 and has never fully recovered since. The decline in demand can be explained to a large extent by the low level of capital investment in the economy at large and by a marked drop in the specific consumption of steel (1). Consequently, the balance between demand, including exports, and capacity has deteriorated. By how much is to some extent a matter of technical interpretation of the precise notion of maximum production capacity, because reported statistics sometimes include reserve plant which will probably never be brought into production again. As long as this ambiguity remains, one has to rely on the best estimates available which indicate at present that capacity utilisation fell from about 80% in 1974 to about 55% in 1980. On this basis there may now be some 40 million tons of excess capacity for crude steel production. On present plans in 1983 even under the most favourable assumptions regarding demand there would still be more than 25 million tons of surplus crude steel capacity (2), for which there is no market at present cost levels.

(1) i.e. the relationship between steel consumption and the level of incomes

(2) General Objectives for Steel, SEC(78)3205 final, 20 July 1978.

Thus during the past three years, the overall situation has deteriorated to the point that there is now no question but that structural overcapacity is affecting the majority of producers. This requires that adequate policies influencing the level of capacity be implemented effectively.

The prospect is for a very difficult employment situation in the industry. The number of jobs in the steel industry, which was increasing up to 1974, has been falling from 792 thousand in 1975 to 605 thousand in December 1980. Although it is difficult to predict future employment, because it depends on the actual decline in capacity and on the increase in productivity, it is clear that the industry will continue to face heavy job losses. In this context it must be borne in mind that although the steel industry is an important support for many existing activities, it is no longer a leading sector creating growth in the rest of the economy. Experience in certain areas shows that successful restructuring can provide a better assurance of long-term economically viable employment in this industry than can maintaining uncompetitive structures. In the absence of a deliberate restructuring policy, employment could decline even further.

Steel policies are part of an overall adjustment strategy. Steel restructuring is an important element in the Community's approach to the adjustment of industrial structures to new domestic and international economic factors. This approach will only succeed if policies and resources to deal with the regional and social difficulties are commensurate with their gravity.

B. Objectives and Constraints

The objectives of steel restructuring policies are quite simple and are well-known: to return the steel industry in the Community to international competitiveness, to restore the profitability of the firms, and to assure the stability of employment. Furthermore restructuring measures must not lose sight of the fact that steel using industries have to be able to rely on supplies, of the technical rigidities of steel plant, nor of the increasing dependence on imported energy and raw materials.

Restructuring policies are addressed to enterprises with very heterogeneous structure and competitive characteristics (1). These policies have to respond not only to the problems of integrated bulk producers but also to the specific characteristics of specialised firms and of mini-mills.

The objectives of restructuring policies encounter a number of substantial constraints, which affect the context within which firms have to take decisions, and the implementation of Community measures.

1. The economic context

Inadequate investment in modernisation in the past and the indebtedness and weak cash flow of most steel enterprises have inhibited the restructuring process not least by postponing decisions. Furthermore, inflexibility in the structure of enterprises inhibits rationalisation or concentration when this would improve competitiveness, and insufficient information about each other's plans creates the risk that uncoordinated restructuring plans result in duplication and continued excess capacity.

The situation has been aggravated as a result of the enterprises pricing policies which have made it impossible to keep up with comparable international costs, such as energy and raw materials, to the same extent as in the US and Japan.

Finally, increasing unemployment in the Community as a whole since 1973, and especially in 1980, making restructuring programmes involving many redundancies even less acceptable than before. Efforts to create alternative employment opportunities have so far encountered uneven results and are insufficiently successful overall. Regions depending for a large part on the steel industry risk paying too high a price for restructuring; whence the general priority for the encouragement of diversification and the creation of new jobs.

(1) See Chapter C pp. 7-13 of the "Analysis of Certain Aspects of Steel Restructuring Policies".

2. Implementing Community measures

Restructuring has also been inhibited by difficulties in implementing existing Community measures.

In the first place, the ECSC instruments are conceived from the point of view of promoting new investments while rationalisation also requires that the conditions be created where firms accept to give up capacity.

Secondly the discipline which should follow from the Decision on State Aids (1) is indispensable if the transition is to be made towards competitiveness. Otherwise, unfair distortions in competitive conditions within the Community would contribute to the maintenance of uncompetitive capacity and to the creation of new capacity for which the need has not been demonstrated.

Consequently, reinforcement of restructuring policy, especially the aid and investment aspects, are a pre-condition for a return to a steel industry which would be really competitive and which would not need permanent protection. Without restructuring of the industry, the anticrisis measures, the international arrangements and regional and social policies, although necessary during the adjustment process, would not be effective in the longer term.

(1) Decision N° 80/ECSC of 1 February 1980, C(80)97 final.

C. Community Policies

Notwithstanding the present management of the steel market the enterprises themselves are naturally principally responsible for taking the initiative to respond to the crisis. However, under the treaties, the Commission is responsible for the management of EEC and ECSC policies as they affect the steel industry in the Community. A pre-condition for effectiveness of these policies is the agreement of the Member States to the objectives which are being pursued and the way they can be attained.

For its part, the Commission is determined to further strengthen the coherence and rigour of ECSC policies. This approach will focus on the implementation of the General Objectives and on the Community's regulatory and financial instruments.

1. Information

The first step is to bring together and make available the relevant information about the state of the industry. The Commission will:

- complete and update, as necessary, the General Objectives for Steel, treating a wider range of products;
- pursue its assessment of the technological characteristics and competitiveness of existing steel capacity;
- collect from Member States and enterprises the necessary financial data for the conduct of aids policy, and for restructuring.

2. Investment policies

Investment policies and particularly Article 54, ECSC policies, are a principal instrument of restructuring policy. The Commission will strengthen the investment opinions so as to facilitate a more rigorous application of the aid rules and to use these opinions even more systematically in decisions on Community financing.

To do so the rules for investment declarations will be changed to bring the declaration - and the opinion - forward in time, so that investment declarations are addressed to the Commission well before the firm has taken a definitive position on the investment. The Commission must have the opportunity, the necessary facts and the time, to relate investment declarations from different firms to each other and where appropriate to suggest alternatives. The Commission's appraisal will also check whether the investment is economically viable. The substance of the Commission's opinion will be made known.

In the context of the investment survey, and the investment declarations, the Commission will ensure that it receives complete information regarding the enterprises' overall restructuring strategies.

The Commission will continue to base its Article 54, ECSC lending policies on the implementation of the General Objectives and on the Investment Opinions. ECSC lending policy will also continue to favour reconversion investments in the steel areas and the development of raw material supplies.

3. Competition policy

The serious problems confronting the steel industry may well lead to situations where enterprises might wish to enter into arrangements or forms of commercial cooperation which could prove to be contrary to the Treaties. Furthermore, the Member States are granting substantial aid to the industry.

However, it is in the long-term interest of the industry to restructure so as to become viable and to return to a fully competitive market. Consequently, the Commission will conduct its policies regarding cooperation between firms and state aids giving priority to this objective.

Cooperation among firms

In order to permit appropriate rationalisation when the need is demonstrated, the Commission will continue to apply Articles 65 and 66, ECSC and Articles 85 and 86, EEC with the flexibility provided for in the Treaties. The Commission will continue to favour cooperation which leads to a better utilisation of the industrial complementarities, notably through increased specialisation, joint use of plant to avoid duplication and through the common purchasing of raw materials.

The Commission will also positively consider concentration which leads to capacity reduction and more competitive structure.

The Commission will have to make sure that these policies are consistent with the long-term existence of enough independent, integrated steel firms to ensure adequate competition, protect consumers' interests and to conserve industry's ability to adjust. Moreover, the specific characteristics and competitiveness of specialised producers will be taken into account.

Aids policy

A successful restructuring policy implies that aids may be granted to the steel industry in conformity with a strict interpretation of the Decision on State Aids on the basis of full and timely information, which the Commission will relate to the overall data on the extent and intensity of state aids to the industry. Notification of state aids will have to be early and complete.

Some Member States appear to contest their obligation to notify each individual case of general and of regional aid, unless specifically requested to do so by the Commission. The Commission will make sure that Member States observe promptly and fully their obligation to notify all aids.

Moreover, the Commission will give its decision on the proposed aid only when it is in possession of all the relevant facts and information, including the necessary financial data, to allow it to appraise the proposal in the light of the full criteria of the decision on Steel Aids.

In so far as the necessary information is available at the time the Commission's basic orientation regarding aids will be determined at the time of the appraisal of the investment declaration and the preparation of the opinion.

Investments which do not receive a favourable opinion are not eligible for national or Community aids or public financing.

4. Reconversion and social policies

It is unavoidable that more jobs will be lost in the restructuring process, but the reduction of jobs should be accompanied by measures to create new jobs by companies themselves, by public authorities or together. In this context retraining facilities and tideover allowances should be assured. In so far as not enough new jobs can be created adequate social measures should be taken. An integral part of a restructuring programme on the company level should be a social plan - on which the workers should be consulted at an early stage of its preparation - which explains clearly the reduction of employment and measures proposed to resolve the workers' problems.

Successful management of reconversion is a complex process involving the organisation of the pre-conditions for industrial investment, promotion of new projects and the retraining of people. Experience in the United Kingdom with BSC Industry shows that the effort is worth making and results can be achieved, not least at the level of creating new small enterprises.

Community resources are contributing to this process and should do so more in all the areas affected.

Member States are invited to use the quota section of the Regional Fund in a complementary manner and to introduce requests for contributions from the ERDF which are additional to national efforts for the areas most affected by the restructuring of the steel industry.

On the other hand, the quota-free section of the Regional Fund should be significantly increased so that the Community and the Member States may jointly make greater efforts in regions affected by steel closures to promote accelerated infrastructure programmes of and to encourage new activities, particularly in smaller firms in the context of specific Community actions for regional development. There should be assurances regarding the additional nature of these programmes.

The terms and conditions of Article 56, ECSC reconversion loans, which are determined by the Commission could also be improved: the number of global loan arrangements will be increased, the threshold for individual applications under global loans will be raised so that more medium-sized projects can be handled in this way, and, subject to available budgetary resources the Commission will consider raising the value of the loan per job created eligible for the interest rebate. This will enhance the availability for smaller firms and further streamline the efficiency of the procedures.

The Commission also stands by its proposal for reinforced social measures for steelworkers, and for a corresponding budgetary provision (1). The failure of the Council to reach a positive decision on these proposals reinforces the existing substantial social resistance and undermines the credibility and feasibility of any restructuring policies. It should be underlined that the reinforced social measures and the budgetary provision are needed for workers who have already left the steel industry.

Further restructuring will lead to new dismissals for which additional money is needed, and for which the Commission has already made proposals.

(1) See Annex

5. Disinvestment incentives

Even if all other aspects of a restructuring policy are carried out, there remains the problem that enterprises are often reluctant to close obsolete plant which may still be marginally profitable, especially when they have to service outstanding debts.

To date the Commission has offered some interest rebates on Article 54, ECSC loans for restructuring investments (1). This has had some effect on the related investment and closure decisions but the measure, which has not proved to be as efficient as expected, has been abandoned for 1981 for budgetary reasons. It is therefore urgent to examine this problem and define a new approach. Several alternatives could be considered. In the first place, the Community definition of closure aids could include writing off or refinancing debts thereby permitting Member States to reconstitute in this case the enterprises' capital (2). Secondly, the purchase and closure of plant between firms might in any case have an equivalent effect. Thirdly, a form of closure premium could be envisaged, possibly jointly financed by the Community, which would share part of these costs provided there was an acceptable counterpart in the form of reconversion and diversification investments.

In the latter case the consequences for the ECSC budget would have to be considered, including the possibility of a specific levy for this purpose.

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(1) See Official Journal N° C174/1 of 22.7.77

(2) In this case the point should be considered when the Aids Decision is reviewed at the end of 1981.

In conclusion, the problem is not so much the definition of agreed objectives as the implementation of coordinated policies in the present economic situation without imposing unjustifiable burdens on certain groups or regions.

The Commission's assessment of the situation and its policy proposals presuppose the coordinated implementation of Community policies. In particular Community policies include:

- complete, available information;
- more systematic relationship between restructuring objectives and investment policies;
- using competition policy in favour of positive cooperation between companies; to restructure and ensuring rigorous implementation of the Aids discipline;
- active regional and social policies; and
- early consideration of effective forms of disinvestment incentives.

For these policies to be effective the Council must agree on the objectives and the means.

SOCIAL MEASURES IN THE STEEL SECTOR

1. The following is an account of the bids received so far from Member States for Community financial assistance for social measures connected with the restructuring of the steel industry.
2. Some additional material has been received since December when the Council asked the Commission to take this matter further in consultation with the Member States concerned, but the bids are far from complete and further detailed discussions with the Member States will be necessary, probably lasting a number of weeks.

Present state of bids

3. The Communication sent by the Commission to the Council on 29 October 1980* sets out the applications for support already received from France, the UK and Belgium. The French application was for 300 million ECU, the UK application for 140 million ECU and the Belgian application was put in more general terms. According to the Commission staff's calculation, the total amount eligible for reimbursement by the Community was 157 million ECU, of which 112 million ECU should be paid in the first year.
4. Since then the following information has become available:
 - The British Government has made a new application for support. The British Steel Corporation plans to reduce employment by a further 20 000 jobs. Extra support is requested under ECSC rules for 10 000 jobs resulting from closures or reductions in activity. The total cost could be about £43 million. The Commission staff have not yet calculated what amount would fall to be reimbursed by the Community.
 - So far as the French application is concerned, the number of people for whom early retirement will be requested has been increased by 1 600. On the same basis used by the Commission for its previous calculations, this will increase the amount needed for the French application by about 9 million ECU.

* COM(80)676 final 29.10.1980

- Further discussions are currently taking place between Commission staff and French and British representatives.
- Because of the very recent developments in Belgium, new discussions will take place with the Belgian authorities. Until these have taken place no new estimate can be made of the financial implications for the Community.
- Luxembourg has asked for a renewal of the ad hoc agreement for the support for steel workers leaving with early pensions.
- From the Dutch side no official application for support has yet been received. In the Dutch steelworks reorganisation is under discussion. This could lead to a reduction in the workforce for whom ECSC support might be applied for. It is not certain if the Dutch authorities intend to make an application for support for short-time work, although half the workforce have been working short-time over the last few months.
- As regards Italy the possibilities for support for short-time work are under discussion. Nothing has yet been decided.
- Final decisions concerning restructuring in Germany have not all been taken and it is not yet possible to determine the level of bids for support from the Community.