

COMMISSION OF THE EUROPEAN COMMUNITIES

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ORGANIZATION OF THE STEEL MARKET AFTER 1985

(Communication from the Commission to the Council)

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- I. The most acute phase of the steel crisis is coming to an end ; by the end of the year the capacity reductions in the hot-rolled products sector will be in line with the 30 to 35 million tonnes objective set by the Council at Elsinore. On 26 March 1985, when taking note of this achievement, the Council confirmed that 1985 would also be the last year in which Member States would be authorized to make aid payments to the steel industry, authorised in accordance with Commission Decision 2320/81/ECSC of 7 August 1981⁽¹⁾ and 1018/85/ECSC of 19 April 1985⁽²⁾.

However, the Council had to conclude that the very poor economic situation in 1983 had slowed down the progress towards restructuring and, consequently, agreed that additional aid could be granted in certain circumstances until the end of 1985.

Moreover, the restructuring of the Community steel industry is not complete : the General Objectives Steel 1990 indicate that even on the optimistic assumption that the steel trade balance is maintained at its present level, there will still be excess capacity of the order of 25 million tonnes, if one considers that the average plant utilisation rate should be around 80%.

Efforts towards restructuring are being actively undertaken in the steel industry in all the industrialized countries, because there is enormous over-capacity worldwide, and the measures being taken at the moment, in particular by the United States, may lead to significant changes in trade patterns. It will take several years for the situation to stabilize.

(1) OJ N° L 228 of 13 August 1981.

(2) OJ N° L 110 of 19 May 1985.

- II. The Commission therefore considers that the Community steel industry needs a strictly limited period of transition in order to get ready for a return to a competition-based market. This period of transition will make it possible to lift the controls progressively, starting on 1 January 1986.

The transition period should last for a maximum of three years, in two stages, the first lasting 18 months to two years, and already representing a marked relaxation of the rules in force, and the second, in which there would be even fewer rules, allowing only the maintenance of the last few controls prior to the removal of all constraints.

This gradual relaxation should apply, at different intervals, to all the categories of products covered by the quota system. The decision to relax the constraints must therefore take into account the situation of firms in the sectors concerned, and the effect which the removal of controls will have on the recovery of the steel industry as a whole from the crisis.

The changes to be made to the regime currently in force will be principally made up of deregulation of certain categories or sub-categories, possible regrouping of certain categories, adjustment of companies' references, and more elements of flexibility under the Decision.

Whilst they are being brought into operation, as elsewhere during the whole period of transition, the Commission will maintain close contact with all interested parties, and in particular with steel producers, who must take an active part in the process of deregulation of the system.

- III. The situation varies from one product category to another. In the case of light long products, a structural change has taken place in recent years : as a result, the electric mill sector which comprises flexible small and medium-sized units whose cost prices are lower than those of integrated plants, has acquired a considerable proportion of the market for concrete reinforcing bars (category V), merchant bars (category VI) and wire rod (category IV).

Most of these firms are approaching or have already achieved a situation of balance. Despite the remaining overcapacity (which is in fact proportionally lowest in the wire rod sector), the Commission considers that it is in this area that the sectors which can be deregulated from 1 January 1986 should first of all be sought.

In taking this approach, the Commission is aware that this may ultimately have a knock-on effect : e.g. if the deregulation of merchant steels occurs on 1 January 1986, it is hardly conceivable that the small beams in category III, which are in direct competition with certain category VI products, can be kept subject to quota for two years.

For all categories remaining subject to quota, the Commission will decide as quickly as possible a return to a competition-based market.

The major factors which will influence the Commission on its choice of the moment when, for each category or sub-category, this deregulation may be applied, will correspond respectively to three needs :

- to promote restructuring, and in particular to reduce surplus capacity;
- to avoid serious social consequences;
- to avoid a market collapse.

IV. The Commission's objective is that, in the final phase of the transition period, only a limited number of products in Category Ia should remain subject to quota, and that even for these products, the constraints will have been considerably eased compared with the present rules.

For this reason, the Commission is at present examining the possibility of freeing from the quota system products processed into other products which are themselves subject to the quota system (e.g. products for re-rolling).

The Commission is also examining whether certain categories of cold-rolled sheet should be deregulated completely or regrouped in a more general way, thus easing the constraints which the system imposes on producers.

V. An adjustment to the references would seem to be essential, because unless the existing references are considerably changed the abatement rates will be calculated on the basis of a total amount which is quite different from the real situation; in several cases, there are similar differences at company level. In conjunction with the trade organizations and the companies, the Commission therefore proposes to recalculate the companies' references taking the most recent possible realistic base.

This revision should cover both delivery and production structures : since the system came into being, external markets have developed (e.g., the European state-trading countries have become net exporters while the United States has taken increasingly forceful measures with regard to imports).

It is necessary to correct at least to some extent the abnormal situations which the development of the patterns of trade has created.

VI. The Commission considers necessary provisions to encourage companies to actively pursue the rationalisation of their production, and to effect reductions of surplus capacity. In this respect, it envisages the introduction of an article to permit companies which close a part of their plant - beyond what the Commission has or will require, whether in the context of Decisions 2320/81/ECSC and 1018/85/ECSC or of favourable opinions given under Article 54 ECSC - not only to keep the references of this plant, but also to receive supplementary quota proportional to the closures effected.

In this context it will be necessary to take account of the situation of those enterprises which, at the end of 1985, will have effected closures going beyond the requirements of the Commission as counterpart for aids granted.

But, more generally, the amendments envisaged will lead to a re-casting of the decision in force; nevertheless, it is appropriate to keep an article to permit the Commission to alleviate exceptional difficulties, which a company might face due to the fact that the system is being maintained, and another article allowing a firm to meet exceptional orders for third country export.

Lastly, in order to make progress towards deregulation generally, the Commission is examining how the existing elements of flexibility (transfers between categories, carryovers, advance use of quotas etc...) might be increased.

VII. The Commission does not intend to include in the next Decision the provisions of Article 15 B of the present Decision. This provision was only justified during a period of particular pressure, when the survival of the Common Market was at risk : it has no place in a regime of transition towards the normal regime of the Treaty. It must be pointed out that, in the case brought by EISA against the Commission, the Court specifically reserved its position on the examination of the compatibility of Article 15 B, and only rejected EISA's demand after having taken note of the Commission's undertaking to only resort to the sanctions provided for in Article 15B after having exhausted all recourse for violations on the rules on prices, quotas, competition, and state aids.

On the other hand, it does intend to continue, during the first phase of the period of transition with the statistical monitoring of flows of steel products between Member States on the basis of the existing production certificates and accompanying documents. These documents, which will also apply to Spanish and Portuguese producers, will make it possible to check whether deliveries from the steel industry in the new Member States are in line with the commitments entered into by their governments under the Accession Treaty. They will also make it possible to retain a modicum of control over transactions carried out by dealers.

VIII. In the present conditions, the Commission considers that it is no longer essential to keep in force the minimum prices imposed in December 1983⁽¹⁾ and amended several times since then; it therefore envisages suspending this Decision shortly, while retaining the right to reintroduce it if significant disturbances should occur once again in this area.

The Commission is concerned to ensure that the prices charged by firms allow the necessary amortization and a normal return on invested capital. That is why it intends to continue, on the basis of Article 60 and subsequent articles of the ECSC Treaty, with a policy of controlling market prices as strictly as possible, where both firms and dealers are concerned: it will continue with its frequent inspections on firms' premises and will attempt to make these inspections even more effective. It will also request the Member States to continue with the measures concerning dealers, as the latter are very much involved in the distribution of steel products and they should, like the steelmakers, be subject to certain rules, e.g. the requirement to submit a price list.

In order to maintain strict control over companies' abiding by the provisions of the Decision the Commission also intends to maintain the current security system, which will continue to be applied to the quota regulations for products in categories Ia, Ib, II and III.

IX. The Commission has not yet worked out the terms of reference which it will propose to the Council in September with regard to the external elements of the steel crisis measures; these elements existed before the quota system was introduced and their development does not necessarily need to be parallel to the development of the quota system. However, it would be undesirable for the Member States and the steel industry to get used to the idea of a virtually automatic renewal of measures on imports. The steel industry must be made competitive with companies in the third world. As its competitiveness develops, it will be less necessary to maintain restrictive external protection measures, although, here also, any development must be progressive: the Commission must remain vigilant with regard to the rules of international business being respected by its partners.

(1) Decision 3715/83/ECSC of 23 December 1983 (OJ N° 373 of 31 December 1983).

- X. The Commission has thought it essential - in order to avoid uncertainty which would be dangerous for the market in the second half of 1985 - to make known now its position on the broad lines of what the market control system should be in the years ahead.

If the Council is willing to accept this approach, the Commission will request it in October, after contacting the representative Community associations, for its assent under Article 58 of the ECSC Treaty on the maintenance of a production quota system based on the broad lines set out in this document. At present, however, the Commission thinks it sufficient that the Council should :

- approve the Commission's thinking, particularly on the need to return as quickly as possible, by means of a transitional period limited to three years, to a market of free competition between Community companies
- take note of the Commission's intention to put together, in line with this thinking, a more detailed document, on which it undertakes to give its assent under the provisions of Article 58 of the ECSC Treaty, with the aim of pursuing a market surveillance regime, which must end on 31st December 1988 at the latest.