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EXTERNAL COMMERCIAL POLICY

IN THE STEEL SECTOR

STOCKTAKING AND PROSPECTS

(Communication from the Commission to the Council)

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INTRODUCTION

The Community was obliged from 1977 onwards to adopt in respect of external suppliers a number of unilateral and contractual measures to ensure normal conditions of competition on the common market, at a time when the recession and the coming on stream of new production capacity worldwide were depressing prices to such an extent that the very existence of the Community iron and steel industry would have been in jeopardy had no action been taken. At the same time the Community embarked on an internal policy of restructuring and adjustment. In so doing it followed a consistent policy and one that was in accordance with the initial undertakings given by the members of the OECD Steel Committee.

Now that unilateral measures have been in force for ten years and the arrangements on steel imports concluded with a number of non-Community countries have been operating for nine years, the time is ripe to take stock of the external commercial policy that has been followed in the steel sector and to see what guidelines should now be adopted in the light of the present situation on the internal and world steel market and the way it is likely to develop. In so doing the Commission is meeting the specific request to this effect made by the Council at its meeting on 12 December last year.

I.I STOCKTAKING

A.A ORIGIN OF MEASURES ADOPTED IN RESPECT OF EXTERNAL SUPPLIERS

The introduction of both the unilateral and the contractual measures adopted in respect of external suppliers preceded the implementation of the surveillance and production quota arrangements for Community iron and steel firms (1980) and the common rules for aid to the industry (1980 and 1981). The reasons for introducing the external measures have to be sought in the situation facing the Community in 1977.

Community crude steel production peaked in 1974 at 156 million tonnes. From this level it dropped to 126 million tonnes in 1975, 134 million tonnes in 1976 and 126 million tonnes in 1977. At the same time imports of ECSC iron and steel products rose appreciably, from 7.4 million tonnes in 1974 to over 12 million tonnes in 1976 and 1977.

The Community was obliged to act in order to prevent imports from having an excessive impact on prices in the Community. Failure to act would have resulted in complete disruption of the market and would have had serious economic, social and political consequences which would, over a period of time, have prevented any orderly restructuring of the iron and steel industry. Measures were adopted on both a unilateral and a contractual basis. The unilateral measures were concerned with surveillance of imports of certain steel products and the introduction of a system to counter dumping prices or subsidies through the establishment of anti-dumping/countervailing duties machinery and basic prices. The aim of the contractual measures was to endeavour to conclude arrangements on steel imports with the main traditional supplier countries as a means of inducing them to comply with the price levels imposed on the Community steelmakers, in return for which the Community guaranteed their traditional levels of exports.

B. UNILATERAL MEASURES

The strong growth in imports in 1976/77 at abnormally low prices being largely due to dumping and/or export subsidies, the Commission established, by means of Recommendation 77/330/ECSC of 15 April 1977, subsequently amended, Community surveillance in respect of the importation into the Community of certain iron and steel products covered by the ECSC Treaty, notably with a view to monitoring the trend of such imports and taking care that the imports or the conditions under which they took place did not cause serious injury to Community production.

At the same time it adopted a Recommendation (77/329/ECSC) on protection against dumping or subsidies. This Recommendation was based on Article 74 of the ECSC Treaty and under its provisions an anti-dumping/countervailing duty could be applied to any dumped or subsidized product whose introduction into Community commerce caused, or threatened to cause, material injury to an established Community industry or materially retarded the setting-up of an industry whose early establishment in the Community was envisaged. In its Recommendation 77/3004/ECSC of 28 December 1977, the Commission stated that if several importers from one or more countries were involved, anti-dumping or countervailing duties could be equivalent to the amount by which the supplier country's export price was less than the external basic price established for this purpose. The external basic prices which entered into force on 1 January 1978 were established by reference to the lowest normal costs in the supplier country or countries where normal conditions of competition prevailed. The external basic price differs from the concept of basic price used for the iron and steel price lists of Community firms published in accordance with Article 60 of the ECSC Treaty. External basic prices have been reviewed during the last few years to bring them into line with changes in production costs in the reference countries and exchange rate movements. They concerned most carbon steels and some

kinds of special alloy steel. A list was published in OJ L 353/77. The basic price system was subsequently extended to cover other products.

To deal with production inside the Community, the Commission introduced minimum prices by means of its Decision N° 962/77/ECSC. It was based on the finding that "the steel industry had been in serious difficulties for some years, that supply had for some time been in considerable excess of demand, the share of the market taken by imports had increased sharply over this period and prices had been cut to well below production costs." Community producers' price lists were not permitted to fall below the minimum prices. However, subjecting Community producers to minimum prices would have had only a limited effect if imports had not been covered by the same discipline. This objective was achieved by means of the price rules contained in the arrangements on steel imports agreed with the Community's main suppliers.

C. CONTRACTUAL MEASURES

In 1977 the Community proposed to its main suppliers that arrangements be negotiated to cover imports of steel into the Community in order to ensure compliance with Community prices in return for a Community guarantee that traditional trade flows would be continued. In 1978 arrangements were concluded with 13 countries : Austria, Finland, Norway, Sweden, Portugal, Spain, Australia, Hungary, Poland, Romania, Czechoslovakia, South Korea and South Africa. Limited or special arrangements were also concluded with Brazil, Switzerland and Japan. The arrangements with Portugal and Switzerland were not renewed in 1979, but an arrangement was concluded with Bulgaria. In 1986 the following countries have concluded arrangements with the Community : Austria, Finland, Norway, Sweden, Bulgaria, Hungary, Poland, Romania, Czechoslovakia, South Africa, Brazil, South Korea and Australia.

In signing these arrangements those supplier countries which are not members of EFTA gave an undertaking that their delivered prices for the reference quantities referred to in the arrangements would not be lower than those listed by Community producers. The arrangements concluded with the EFTA countries provide for the balanced development of traditional trade flows on the basis of the price provisions already contained in the free trade Agreements. All the annual arrangements (EFTA and others) were later supplemented by certain provisions concerning the breakdown of deliveries by region and product. In return, and with the aim of enabling non-Community countries which had signed arrangements to maintain their exports, the Community authorized the countries concerned to apply a penetration rebate of 6% for carbon steels and 4% for special steels. In the arrangements with the EFTA countries, which do not contain any reference to quantities, these rebates were reduced to 3% and were abolished with effect from 1986. The Community also suspended the right of Community iron and steel firms to align their prices on the prices resulting from implementation of the arrangements.

D. ASSESSMENT OF THE POLICY ON THE LAST TEN YEARS

The policy of trying to maintain normal conditions of competition within the common market and avoiding price distortions has had beneficial effects both for the Community and for its traditional suppliers.

Notwithstanding the rise in imports in 1986, the trade figures show that imports have never yet regained their 1977 level (12 million tonnes) and have even been well below this top limit.

a) Imports originating in countries with which an arrangement was concluded

Imports originating in countries with an arrangement which had reached 9,272,000 tonnes in 1977, fell back to an average of 6,750,000 tonnes during the period 1983/85. This fall in imports is due to the fact that suppliers in countries which have concluded arrangements with the Community have been made to comply with the price rules contained in those arrangements and have thus abandoned the price undercutting which led to an exceptional increase in imports in 1977. The fall in imports is also due to other factors such as certain countries redirecting their exports towards markets other than the Community market, depressed prices on the Community market, the quality of products offered by some countries and the maturity - or lack of it - of their marketing networks in the Community. The arrangements have benefited not just the Community but the partner countries as well. By taking 1976/77 - which preceded the year of application of the first arrangements - as a point of reference, the Community's aim was evidently not to call for a return to the less favourable figures of previous years but to allow the countries with which arrangements were concluded to maintain their exports at the level of the year which, overall, was most favourable for them. Moreover, if the Community had not allowed the countries concerned to align their prices on those of Community producers or had not granted them margins of penetration, it is likely that the uneven and depressed level of prices in the Community would have had the effect of lowering the level of their sales.

b. Imports originating in countries with which arrangements were not concluded

Imported tonnage from countries with which arrangements were not concluded increased from 1,917,000 tonnes in 1976/77 to 2,110,000 tonnes in 1983/85. Thus imports originating in this category of countries remained relatively stable during the period under consideration despite fluctuations in the origin of products.

c. Trade balance 1977/85

The trend of external trade cannot be judged solely by the figures for imports without regard to the corresponding data for exports. Despite the fall in consumption, imports accounted for nearly 11% of Community consumption in 1977 (in terms of crude steel), but this figure was down to about 9% in 1981/85¹. Over the same period the proportion of production going for export did not change greatly, despite some variations from one year to another.

¹ 1985 was an exceptional year, both in terms of the Community's home demand and in terms of the situation on other markets due to the strength of the dollar.

The balance of trade in iron and steel products has therefore improved by comparison with 1977. In contrast to certain studies, the statistics show that the respective shares of imports and exports have remained at a reasonably regular level. In a handful of cases, and especially where the United States is concerned, exports expanded because of the profitable prices that were available, but in general sales of carbon steel on most markets were maintained or increased only through the adoption of unrewarding prices.

d. Developments in 1986

Since the end of 1985 the trend in external trade in ECSC products has been less favourable. Exports are no longer at the exceptionally high level achieved last year and imports from countries with or without an arrangement are higher than in 1985, although still well below the 1976/77 level. The recent trend in trade is due to several factors which will be examined below.

Although the external commercial policy measures have kept import flows stable and have thereby helped facilitate the internal restructuring of the iron and steel industry, they have also had a number of adverse side effects through the very fact that the Community industry has concentrated more on restructuring problems and has concerned itself with short-term rather than long-term trade objectives. Indeed, the steadiness of imports or the way in which the trade balance has held up well to 1985 may give too favourable an impression of the Community's trading situation. On closer inspection it is apparent that the relative security given to the Community industry by external policy measures has obscured some of the industry's weaknesses where external trade is concerned.

Some firms have not adjusted sufficiently to the new marketing techniques applied by international competitors on the common market. The growth of certain lines of imports in recent years has demonstrably been due to the dynamic marketing of suppliers from non-Community countries and to the service they offer their customers.

On the economic level, the measures designed to confine access to supplies of steel at competitive prices or to support price levels are helpful to producers but work against the interests of users or final consumers. To the extent that they reduce the competitiveness of users they hamper economic growth and encourage the use of substitute products.

Lastly, it has to be recognised that the rate of penetration of imports of ECSC iron and steel products into the Community rarely exceeded 10%, at least until 1985, which places the Community alongside Japan among the industrialised countries importing less than a tenth of consumption. This is low by comparison with other industries, some of which are in at least as precarious a situation as steel. The traditional objection is that the share of imports from non-Community countries cannot be looked at in isolation and that account must also be taken of intra-EEC imports. The Commission cannot accept this argument. This is because the Community constitutes a single economic unit, as it asserts constantly in international forums and in major multilateral negotiations involving commercial policy. There is therefore no basis for referring to intra-Community imports.

II. GUIDELINES FOR THE FUTURE

Given the stability of the Community's production, domestic consumption and external trade in recent years, and taking into account the time the iron and steel industry has had in which to make the necessary adjustments, it may legitimately be asked whether the external commercial policy currently being followed is still suited to present needs.

Yet although the internal situation has improved appreciably since 1977 it is essential to recognise that some of the factors on which Community policies were based at that time are still relevant and that others, especially certain external factors, have since increased in importance.

Thus account must be taken of the transitional period which began on 1 January 1986 and at the end of which the ordinary ECSC Treaty provisions on internal trade will once again apply, in drawing up guidelines for the future external commercial policy. During the transitional period the main elements of the current external commercial policy will have to be maintained to avoid endangering the final internal restructuring efforts and the process of financial recovery.

In parallel, the efficiency of procedures for protection from unfair competition will have to be improved, in particular by speeding up the investigations. This will depend on an increase in the resources available to the responsible department of DG I.

A. THE INTERNAL SITUATION REMAINS PRECARIOUS

1. Surplus capacity

At the end of 1985 hot-rolled steel capacity in the Community of Ten was 143.3 million tonnes, which was a reduction of 28.6 million tonnes by comparison with the 1980 figure (172 million tonnes). Further reductions in capacity of the order of 3 million tonnes to be achieved in 1986 - mainly in return for additional aid authorised by the Commission for the steel industries of six Member States on 1 August 1985 under the code on aids - will bring the figure down further to 140.5 million tonnes. However, there is still likely to be surplus capacity of just over 20 million tonnes, without taking the surplus capacity of the Spanish iron and steel industry into consideration.

2. Some rules governing production are still in force

Within the Community, remedial action is not yet complete and full liberalisation of external arrangements will not be possible so long as the domestic situation is still not normal or virtually so. Some firms have made great progress in restructuring and adjustment aimed at enabling them to stay in business under normal conditions of competition but other firms have still not reached this stage.

3. Unevenness of prices

Steel prices in the Community have improved since the first arrangements were signed. Thanks to the discipline imposed on exporting countries with which the Community concluded arrangements and to supply cutbacks under the production quota system, the fall in prices due mainly to the weaker dollar and the change in energy costs, has on the whole been less pronounced in the Community than on the world market.

The price situation in the Community varies according to the product and the period. In many cases the current level of internal prices has enabled the restructured firms to balance their books. But there is little chance of satisfactory overall price stability until the adjustment and modernisation of production is complete or well on the way to completion. Such price stability will also require effective defences against abnormally low prices.

B. THE WORLD SITUATION HAS CHANGED APPRECIABLY

1. Growth of world production capacity

World consumption and production stood at 716 million tonnes in 1985, whereas world production capacity was 935 million tonnes (according to the OECD). In 1990 capacity will have risen to around 985 million tonnes and by the year 2000 will be over 1 000 million tonnes. Should there be maximum capacity utilisation of 90% the surplus capacity, which was around 125 million tonnes in 1985 - or more than total Community production - will amount in 1990 to 170 million tonnes, and to absorb this would require a 25% rise in consumption. As the rise in consumption will not be more than 10% by 1990, world surplus capacity will still amount to 100 million tonnes.

2. Progressive closure of world markets

Although the countries represented on the OECD Steel Committee undertook in 1978 to see that steel trade was kept as free as possible from restrictions and distortions, it has to be recognised that new trade barriers have been put up in recent years.

Faced with the rapid growth of imports owing mainly to the excessive appreciation of its currency at a time when demand on its domestic market was stagnant or falling, the United States has imposed voluntary export restraint agreements on virtually all its suppliers. The share taken by imports is not to exceed around 22% of consumption (including semi-finished products). Exports from the Community, which amounted to 4.8 million tonnes in 1985, will be cut back and will subsequently depend on US consumption.

Although the Japanese market is not subject to measures restricting imports, Japan's economic and commercial structure has hitherto prevented the working of free competition. Although imports into Japan are up in 1986 and amount to around 4% of domestic consumption, it is possible that this growth will not show any further substantial improvement over the next few years despite the appreciation of the yen. And even the increase in recent years can be traced largely to investment by Japanese companies outside Japan or certain countertrade deals.

Many other steel-producing countries have adopted measures to reserve the domestic steel market for their own production. Such measures have been adopted in Australia and by the main producer countries in Latin America and Asia.

Lastly, most developing countries - and not just the most heavily indebted among them - have restricted imports or subjected them to strict foreign exchange formalities.

3. Consequences on the world market

The situation described above inevitably affects traditional trade flows. The closure or shrinkage of numerous markets in a context of production surplus throws the supply/demand relationship out of balance and the continuing growth of production capacity in the developing countries exacerbates the tension, the practical effect for the Community being a reduction of its export opportunities.

Producers unable to sell their products to their traditional purchasers, and also the countries with a production surplus, tend to look to the Community for outlets. A number of countries have both expanded production and reduced their imports. Brazil and Venezuela are particularly useful examples in this connection. Imports into Brazil from the Community fell between 1976 and 1985 from 242,000 tonnes to 51,000 tonnes, while imports into Venezuela dropped from 406,000 tonnes to 53,000 tonnes. The substantial excess of supply over demand continues to affect world steel prices, which cannot be expected to recover satisfactorily in a context of over-capacity.

4. Likely trends on the steel market

The traditional forecasting methods, even sophisticated ones, being based inevitably on extrapolation, are not accurate over the long term. It is particularly hard to foresee general political and economic trends and to take proper account of the technological changes that are a feature of the industry.

Most recent forecasts suggest a general rise in world consumption over the next five years. This should help boost steel consumption.

In a recent International Monetary Fund report the basic forecast is for an annual growth rate of 3% in the industrialised countries in the four years covered by the medium-term scenario (1988-91). The IMF considers that various adjustment measures together with a more favourable external environment will result in a reasonably sustained rate of growth of demand and production. Broadly speaking, this will also apply in the case of the developing countries, which as a result of capital inflows should expand their imports by just under 5% a year over the 1988-91 period.

The study also shows that overall production in the developing countries could rise by some 4.75% annually during the period of the medium-term scenario. One may infer from this study that, making allowance for the uneven impact of economic recovery on world steel consumption, i.e. less significant in high-technology economies, especially in view of the progressive substitution of new materials, but more marked in the industrialising countries, steel consumption in the world as a whole (including state-trading countries) could rise by 6-8% over the next five years, which is less than 2% a year. It is possible, therefore, to look forward to a rise in demand for steel¹, although this will probably not be sufficient to absorb the projected increase in capacity.

Lastly, in a report published in October 1986, the International Iron and Steel Institute (IISI) has even greater reservations on this point, forecasting only a very slight increase of 1% in world demand between 1985 and 1990¹.

This increase comes exclusively from the developing countries (17%) and China (20%); however, the Institute points out that even in the developing countries growth in demand for steel since the beginning of this decade has not kept up with growth in GDP.

On the other hand, unlike the other forecasts, the Institute's predictions point to a decrease rather than an increase in production capacity.

¹ Moreover, these two scenarios are similar to the conclusion of world-renowned steel experts.

Experience has shown that in the developed countries steel consumption is decreasing or remaining stationary rather than increasing in line with the consumption of other products such as consumer goods or electronic products. Restocking will not be on a large enough scale to have a decisive influence on demand. Production increases will benefit mainly the Third World countries, where production costs, in particular labour costs, are lower or the growth of requirements will be faster. Referring to the non-OECD countries, the OECD Steel Committee said in a recent study :

" In summary, the limited information available suggests that while projected increases in consumption in non-OECD countries to 1990 would be sufficient to absorb the increases in capacity implied by known expansion plans, an increasing proportion of that consumption would be met by steel produced in non-OECD areas. Moreover, not only would the forecast increases in production and estimated increases in capacity in non-OECD countries be sufficient to meet increased domestic demand in non-OECD countries and displace imports into those countries, they would also be sufficient to allow non-OECD countries largely to maintain their current level of export activity."

It could also be pointed out that some heavy debtor countries are encouraged to stimulate their steel exports by the weight of their foreign debts.

The Community's chances of keeping up its 1985 export performance are practically nil. Increased sales in some parts of the world will be offset by bigger falls in exports to other parts. It is expected that imports will grow slowly but that the fall in exports will be sharper. Imports could rise to a maximum of 10.5 million to 11.6 million tonnes, while exports over the next five years could gradually fall to around 18 million tonnes.

The decline of exports will probably continue after 1995, but will involve mainly carbon steel, with special steels being affected to a lesser extent. As the Community will see to it that non-Community country exporters operate under normal conditions of competition, imports will probably remain at around 10% of consumption.

C. COMMISSION PROPOSALS ON EXTERNAL COMMERCIAL POLICY

In the short term, commercial policy in the steel sector must take account of the improvement in the albeit still fragile situation within the Community following a number of years of restructuring, and also of the less favourable prospects on the world steel market. These prospects are certainly not encouraging, although they are in accordance with the forecasts of the general objectives for steel.

In the longer term, the Community's future commercial policy on steel will depend very largely on the commercial policy adopted by other countries throughout the world. Commercial policy must also take account of the aims of the new round of GATT trade negotiations which provide for the gradual dismantling of all restrictive measures contrary to GATT rules. There will be GATT monitoring to see that these undertakings are honoured.

In the medium to long term, the survival of the industry will depend mainly on its adjustment to world competition, which is more and more characterised by the transfer of steel production capacity from industrialised countries to newly industrialised countries which at one time were major importers. Further restructuring, modernisation and constant adjustment to technological developments become, therefore, of capital importance. The efforts already made in this field by many firms have placed them in the position of now being able to stand up to fair competition from any country in the world. The operation of a free market in accordance with the spirit of the White Paper on completion of the internal market, necessarily supposes faster restructuring and progressive liberalisation both internally and externally as decided in 1985. The Commission feels strongly that it would be doing the steel industry a disservice if it were to propose that existing measures be kept in place indefinitely. Accordingly, it considers that the arrangements system should be reviewed, in particular in the light of the outcome of the new GATT round and the opening of the US market. Clearly, at that point the maintenance of an effective system of surveillance and protection against dumping and subsidies, together with the effectiveness of the system of basic prices, would form the essential elements of the Community's commercial policy.

However, the likely prospects for the world steel market and the policies adopted worldwide have persuaded the Commission that it would be unwise to abandon in the very near future the measures taken to avoid distortions of competition, although the existing measures should be adjusted so as to strengthen their non-protectionist nature.

In the future, during the transitional period, one might imagine the pattern of the Community's commercial policy in the steel sector to be as follows : first, unilateral policy : maintenance of the measures in force, generally speaking, though, if possible, with greater simplicity; secondly, contractual policy : maintenance of most of the arrangements, amended or adapted if necessary; replacement of the arrangements by agreements on quantities; negotiation of reciprocal arrangements or agreements on imports and exports.

1. Unilateral measures

The surveillance mechanism will have to be maintained as it provides a speedy way of monitoring the import trend. The existing rules would have to be improved, and especially simplified. The list of products covered will have to go on being adjusted regularly.

The rules on protection against dumped or subsidized imports from non-ECSC countries are a key instrument. They do not constitute a protectionist system but a necessary mechanism for avoiding distortions of competition. The rules will have to be applied more speedily or more effectively in accordance with the relevant provisions and with the GATT code on dumping and countervailing duties, on which the rules are based.

The Commission will continually update the system of basic prices and their level in relation to the production costs of the most competitive non-Community countries. The basic prices constitute points of reference for exporters in non-Community countries. They constitute an essential element in allowing the Commission to speed up anti-dumping/countervailing duty proceedings, and to make them more effective, particularly as regards the imposition of provisional duties.

2. Contractual measures

The Commission feels that at present the unilateral measures are either not sufficient or not always designed to ensure the normal traditional flows of trade in steel or to avoid disputes. It has been shown in practice that agreements with the main suppliers offer greater security to the parties concerned.

The conclusion of flexible arrangements between the Community and its supplier countries has the advantage of facilitating trade, particularly at a time when prices both in the Community and worldwide are unstable or lack transparency. In the Commission's view, this type of arrangement is certainly to be preferred to the more stringent quantitative agreements concluded between the United States and their suppliers and is more in line with GATT rules and the initial undertakings of the OECD Steel Committee.

However, the conclusion of bilateral agreements of the type proposed by the Mexican representative to the members of the OECD Steel Committee, under which Mexico would undertake to maintain its purchases of the kinds of steel it traditionally imports while the supplier countries would undertake to purchase an equivalent quantity of Mexican steel, is less feasible between market economy countries, in which the state has little influence over businessmen and traders. Furthermore, it would be difficult to draw up a solution of this type where the volume of transactions is not more or less the same on each side.

Setting aside, therefore, the conclusion of quantitative voluntary restraint agreements or agreements governing reciprocal trade flows, the Commission considers that the bilateral arrangements that have been negotiated up to the present represent the best means of avoiding distortions of competition and maintaining traditional trade flows. This is also the opinion of an organization representing the Community iron and steel industry.

The endorsement for the time being of the principle of the arrangements does not mean that the Commission is recommending that all the existing arrangements be renewed or that their provisions be maintained intact. It suggests that the number of arrangements should be reduced and that changes should be made to their content.

a) EFTA countries (Austria, Finland, Norway and Sweden)

Recent trends show that in future the Community market will be by far the principal market for the iron and steel industry of the ECSC countries and the countries linked to the Community by the Free Trade Agreements. Special importance therefore attaches to relations between the Community and the EFTA countries, which - it should be remembered - supplied 44% of the Community's total steel imports in 1985.

The Free Trade Agreements prohibit all quantitative restrictions or measures having equivalent effect and stipulate that the Community and the EFTA countries must apply the provisions of Article 60 of the ECSC Treaty in respect of price rules applicable in the Community for exports from either side to the other. The obligations of the contracting parties are of a reciprocal nature. Any arrangement with the EFTA countries must take this legal reality into account.

In their Declaration in Luxembourg in April 1984 the Community and the EFTA countries advocated the creation of a dynamic European economic space of benefit to their countries as representing the logical extension of the Free Trade Agreements. In June this year (1986), at the meeting in Reykjavik, it was decided to initiate work on simplifying administrative formalities in trade. This spirit is also to govern relations in the sphere covered by the ECSC Treaty.

As the Free Trade Agreements relating to ECSC products are international agreements, there would appear to be no obvious value in having additional special arrangements for steel. The Commission proposes that no further arrangements be concluded with the EFTA countries beyond a simple exchange of letters embodying more flexible and speedy consultation machinery than that provided for in the Free Trade Agreements, so as to provide means of resolving more effectively the problems arising in trade in iron and steel products. The Commission considers that it would be sufficient to negotiate exchanges of letters containing references to the price provisions of the Free Trade Agreements and the need for balanced development of

trade at the Community or regional level so as not to affect unduly the established structure of exports, and also the need to settle difficulties by means of speedy and effective consultations.

The attention of EFTA countries should be drawn to Article 24 of the Free Trade Agreement at the time of signing the exchange of letters.

At the same time, the parties will have to see that the obligations provided for in the Agreements are actually met. This would not arise out of an exchange of letters, but entails simply the effective implementation of the existing provisions.

The Commission will conduct with the EFTA countries a study of the two sides' prices policy, with particular reference to the application of that policy in mutual trade. It will ensure that the provisions of Article 60 and of the successive decisions taken by the Commission are applied and that prices are more transparent. It will also take action aimed at bringing closer into line the existing surveillance machinery on both sides.

The Commission also attaches special importance to the balanced development of trade and considers therefore that this should be confirmed in the exchange of letters. Balanced development is all the more necessary as the EFTA countries are facing a steady decline in domestic consumption and have to cope with a particularly high rate of import penetration, with the result that their industry is experiencing difficulties at a time when most export markets are shrinking. Firms in the EFTA countries will be tempted to step up their exports to the Community, where manufacturers are still bound by production quotas. It will therefore be absolutely essential for the EFTA countries to obtain from their industry an assurance of compliance with the stipulation relating to balanced development. As the Free Trade Agreements are based on reciprocity and the markets of the EFTA countries are in a worrying state, the Community industry will have to accept the same discipline.

- b) Eastern trading area countries with which an arrangement has been concluded
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Most of these countries supply more steel to the Community than they purchase from it. They tend to produce more than they consume domestically, so they will continue to be exporters of iron and steel products. Production capacity in these countries will rise slowly over the next ten years, probably in line overall with the increase in domestic consumption. The exception is Romania, where production capacity is already quite sizeable at 16 million tonnes (1985) and will rise to over 20 million tonnes in 1990, by which time the volume available for export will have doubled to 5 million tonnes.

Given their surplus production and their desire to balance their trade with the Community, the countries concerned will endeavour to maintain and if possible step up their sales on the common market, often at prices endangering prices in the Community.

For this reason and also because of the lack of transparency in price formation - and because long-established unilateral quotas are still in existence in some Member States - the Commission considers that the present structure of arrangements should be maintained. The arrangements system does not conflict with the barter trading which covers a large part of these countries' steel deliveries. However, the subquantities referred to in the arrangements, which are much more detailed than the current breakdown in unilateral quotas, will have to be reduced in number and adjusted to real market trends. Completion of the internal market also implies the progressive dismantling of existing unilateral quotas.

c) Other countries

This chapter concerns those countries not covered above. Only a few of these countries which are suppliers of iron and steel products have concluded arrangements with the Community. There was no point in concluding arrangements with countries which have traditionally supplied only small quantities. However, it is quite possible that these countries' recent penetration of the Community market might lead to the Community seeking a contractual solution to the problems caused by the increase in imports.

(1) Countries with which the Community has already concluded arrangements

In 1986 the Community has concluded arrangements with South Africa, Australia, Brazil and South Korea. Up to 1985 it also had a special arrangement with Japan. The share of imports into the Community taken by some of these countries has fallen appreciably in recent years. The Community should examine whether these arrangements should be maintained (as indeed it does on a regular basis for each country with which it concludes an arrangement). If they are to be maintained they should be similar in structure to previous arrangements.

(ii) Countries without arrangements

Up to 1985 at least, and in all but a few cases, the countries without arrangements presented few problems in trade and their share of imports did not increase. The stabilization of imports originating in these countries provides confirmation that the unilateral commercial policy measures were adequate overall to counteract abnormal conditions of competition. However, for the reasons set out above, several countries will be seeking new markets for their products.

Recent experience shows that countries without arrangements have substantially increased their exports to the Community and that this increase mainly concerned a few sensitive products. On several Community markets the share of several products has reached the level where it has a direct effect on internal price levels. The Community will have to respond to this development by imposing unilateral measures or by seeking a contractual solution.

The Commission feels that in the case of some of these countries the arrangements system could provide a means of stabilizing trade and avoiding distortions of competition. It is of the view, however, that arrangements should not be concluded with countries which do not export a great deal to the Community. It is not possible to draw up at present an exhaustive list of the countries with which arrangements should be negotiated. The countries concerned must take the first step and the Community will have to decide whether the negotiation of an arrangement would be appropriate. Arrangements should not be allowed to proliferate and should be the exception rather than the rule.

Several of the Community's new suppliers are developing countries. Although the Community cannot ignore the problems caused by their steel exports to the Community market, it must also take account of these countries' special situation and create a climate of confidence favouring the smooth working of trade. Favourable treatment does not imply that the Community market is to be regarded by the developing countries as an outlet where reasonable limits do not apply. The developing countries must take account of the state of the European market and the need to safeguard the legitimate interests of the European iron and steel industry.

The Commission feels that where the developing countries are concerned, factors other than the volume of their traditional deliveries should be taken into consideration when arrangements are being negotiated, such as:

- (i) type of formal relations with the Community: association agreement, trade agreement, etc.;
- (ii) volume of imports of steel from the Community and nature of the treatment accorded to such imports;
- (iii) overall trade balance with the Community;
- (iv) the country's economic situation and level of indebtedness.

In suggesting these criteria, the Commission is taking into account the declaration published at the end of the Uruguay Round ministerial conference in September, which confirms the principle of differential and more favourable treatment for developing countries, and would stress that the Community intends to remain loyal to its traditionally favourable policy towards these countries as already applied in practical terms in other sectors. These criteria could be called into use when a request for the negotiation of an arrangement is being examined and when the reference quantities to which the price rules under the arrangements will apply are being determined.

The Commission's view is that the reference quantities will have to remain as indivisible quantities for the whole of the Community. Should it be necessary, for quantities in excess of 100 000 tonnes, to distribute all or part of the quantity among the Member States, this will have to be done in the light of:

- (i) apparent steel consumption in the Member States;
- (ii) traditional trade patterns;
- (iii) debts resulting from a steel industry capital project or investment by a firm or a government of a Member State. In this case it would seem to be logical to take this kind of situation into consideration, as it enables the Member State concerned to recover part of its claim in countries having serious difficulty in paying their debts and would free other Member States from obligations for which they are not responsible.

Apart from inclusion of a general clause on compliance with the traditional breakdown by product and the possible fixing of specific ceilings, resulting from the imposition of an anti-dumping or countervailing duty, there will be no subdivision by product in the arrangements. In all other respects the Commission considers that the provisions of the existing arrangements should be maintained (notably the system of sanctions for infringements of price rules).

(iii) Initiative concerning world overcapacity

The Commission considers that no encouragement should be given to the proliferation of new projects, as in the present situation and the foreseeable future they will in no sense be in the interests of producer countries or consumers. Bearing in mind the initial undertakings of the Steel Committee and the Community's internal self-discipline, the Commission proposes to examine with OECD Member States the possibility of refraining from giving any official support to operations to finance iron and steel plant. In making this proposal the Commission does not wish to interfere with the freedom of private investors or the principle of granting export credits for projects which do not involve disturbance of the world steel market.

C O N C L U S I O N

III. CONCLUSION AND SUMMARY

By comparison with 1977, the year in which the current commercial policy measures were launched, although there has been an appreciable recovery in the steel sector in the Community, it remains fragile. The world situation, on the other hand, has deteriorated as a result of the development of surplus capacity and restrictive commercial measures adopted by numerous countries.

Accordingly, while remaining attached to the principle that trade in steel should be kept as free of restrictions and distortions as possible, the Commission feels that the Community must during a transitional period maintain the bulk of its contractual and unilateral commercial policy measures.

- (i) With regard to contractual measures, the Commission considers that the arrangements system should be reviewed in particular in the light of the outcome of the new GATT round and the opening of the US market.

In the case of the EFTA countries, the Commission suggests that it will be sufficient to have simple exchanges of letters based on the free trade Agreements and the principle of reciprocity embodied in those Agreements, containing references to price objectives and traditional trade flows and making provision for consultations, unless some of the EFTA countries prefer to maintain the existing arrangements. It will also be necessary to ensure that problems do not arise at regional or product level.

In the case of the Eastern trading area countries, the Commission does not propose any change in the structure of the arrangements but considers that the number of subquantities should be reduced, that small quantities should be abolished and that the quantities should be adjusted in line with the real market trends.

Turning to the other countries, the Commission suggests that arrangements be negotiated only where a non-member country is unable to prevent its producers causing distortions of competition on the Community market. It suggests that arrangements should not be renewed with countries whose exports to the Community have declined appreciably. Lastly, the fate of the arrangement with South Africa is linked with the economic arrangement to be applied by the Community in respect of the Country.

The Commission recommends a more open policy, notably with regard to the establishment of reference quantities for developing countries. The economic and financial situation of those countries and their attitude regarding imports from the Community should be taken into consideration.

Product coverage should be reduced progressively. In the light of the trend of imports in 1986, however, the Commission will not be proposing any change in the coverage for 1987.

In all other respects the provisions of the existing arrangements could be renewed.

(ii) Unilateral measures: in the next few years it will be necessary to take account of the political commitments resulting from the declaration made at the GATT meeting in Punta del Este and gradually introduce some flexibility into the remaining unilateral quantitative restrictions. Those provisions of the surveillance machinery which have proved superfluous in practice will have to be abolished, and the Commission will explore the possibility of harmonizing surveillance arrangements with the EFTA countries. The system of basic prices should be updated. Lastly, the Commission will immediately examine the ways in which the Community's existing rules on anti-dumping and countervailing duties based on the GATT codes can be put into action more effectively and rapidly.

Given the problem of world overcapacity and in view of the initial undertakings of the OECD Steel Committee and the Community's internal self-discipline, the Commission proposes to carry out at Community level a study of the question of public support for the financing of steel installations in non-Community countries.
