

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 509 final

Brussels, 25 September 1985

## INTRODUCTION OF A SYSTEM OF PRODUCTION QUOTAS UNDER ARTICLE 58 OF THE ECSC TREATY AFTER 31 DECEMBER 1985

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(Communication by the Commission to the Council)

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INTRODUCTION OF A SYSTEM OF PRODUCTION QUOTAS UNDER ARTICLE 58  
OF THE ECSC TREATY AFTER 31 DECEMBER 1985

CURRENT SITUATION - NEED FOR MEASURES TAKEN UNDER ARTICLE 58

I. At its 1025th meeting on 25th July 1985, which was devoted to problems in the steel industry, the Council approved the following conclusions regarding the organisation of the steel market:

The Council :

- having taken note of the Commission's views concerning the market surveillance arrangements proposed for the years after 1985;
- convinced of the need to return as swiftly as possible, in an orderly manner, to a market in which Community undertakings freely compete;
- being aware, however, that the process of restructuring is still in progress and that a transitional period limited to a maximum of three years is necessary;
- calls on the Commission to prepare, in line with the principles set out above, a specific document on which the Council will take a final decision on the basis of Article 58 of the ECSC Treaty, with the aim of continuing market surveillance arrangements.

II. The Commission reminds the Council of the conclusions set out above, which remain fully justified in the current situation:

- The worst of the steel crisis is nearly over: production in 1984 and 1985 was considerably higher than it had been in the two previous years. Reductions in capacities achieved by the end of the year are consistent with the objectives fixed by the Council at Elsinore. Consequently, the rate of plant utilisation has edged back up to a level of close to 70%. A return to a market of open competition between Community undertakings can thus be expected in the near future.

- However, restructuring in the Community steel industry is not complete: the average rate of utilisation of 70% still does not make for a competitive industry. There is still considerable overcapacity in several product categories which, in line with the General Objectives Steel 1990 (an average rate of capacity utilisation of the order of 80% given a favourable economic climate being the objective), can be estimated at around 20 to 25 million tonnes. There is enormous overcapacity worldwide, and stabilisation in trade, which is currently undergoing significant fluctuations, is still some years away.

A period of transition is thus necessary. Limited to a maximum of three years, it will allow the industry to move progressively from the extremely rigid controls currently applied to a fully competitive market in compliance with the objectives of the ECSC Treaty.

- The Commission thus notes that although the state of manifest crisis appears to be entering into its final phase it is not yet completely over. It thus proposes to the Council that the transition period should comprise a series of measures taken under Article 58 that will, on the one hand, allow the industry to continue the necessary restructuring in an orderly market and, on the other hand, through progressive relaxation, not only help but encourage the steel industry to adapt gradually to normal market forces.

Combined with strict discipline on aid and increased Community funds to tackle the worst redevelopment problems, these measures will form an essential part of the European steel policy after 1985, as the Commission informed the Council on 25 July 1985.

III. As indicated in the Commission's Communication to the Council of 25 July 1985<sup>1</sup>, the quota system proposed from 1 January 1986 will thus have the following characteristics:

- it will be the last before a return to a competitive market and should prepare for this return from the current strict controls within a maximum period of three years;
- it will be in two stages, the first consisting of a marked relaxation of the controls applied and the second, even less restrictive, keeping only the final controls before abandoning all constraints;
- it will be progressive and will cover, at different intervals, all the categories currently subject to the quota system.

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<sup>1</sup> SEC (85) 1060 final  
<sup>2</sup> COM (85) 382 final

Management of the system during this period will of course require close cooperation between the Member States and the undertakings. The Commission therefore intends to state clearly the system it plans to implement and to keep those affected regularly informed of the way in which it is managing the system and how the situation is developing.

As often as is necessary, and at least once a year, the Commission will report to the Council on the development of the crisis, the results obtained with the system and any changes that need to be made to it.

It will report in particular on the persistence of the manifest crisis and the compatibility of the system with restructuring.

#### IMPLEMENTATION OF THE SYSTEM

IV. The Commission feels that from 1 January 1986 products in certain categories currently subject to the quota system may be exempted. These are products that already comply with at least one of the following criteria:

- overcapacity in these sectors is low, i.e. there has already been considerable restructuring in the case of the categories in question;
- during the period of the quota system the demand for the category to which the products concerned belong grew and, with the agreement of the Commission, production capacities increased;
- the vast majority of undertakings in the sector are no longer in a state of crisis.

These criteria bring the Commission to propose first of all the relaxation of controls on products in categories IV (wire rod) and V (concrete reinforcing bars) and in categories Ic (galvanised sheet) and Id (other coated flat products).

V. As regards long products, the Commission feels that there has been a major structural development in this sector in recent years that has gradually transferred the major part of production from integrated steelworks to electric steelworks. By their very structure the latter are capable of adapting to a rapid return to an open-market economy. Although balance between supply and demand in the wire rod sector has not been completely achieved, the situation has improved considerably. Furthermore, a large number of electric steelworks producing concrete reinforcing bars are not really in a crisis situation any longer.

The Commission is aware that these criteria could also be applied in the near future to numerous producers of category VI (merchant steels). However, it feels that relaxation of controls in the three categories at the same time may leave the firms and areas mainly affected open to too sharp a change and prefers to act cautiously in this instance (see section VI).

In the case of flat products, it intends first of all to abandon the measures that have led to controls at several stages of production. It is unreasonable that products subject to quotas under category Ia (hot rolled sheet and strip) should also be subject to quotas under category Ib (cold rolled sheet) when they are processed by another firm.

The same problem arises for products in categories Ia, Ib and Ic which are then processed into products in categories Ic or Id (coated sheet).

This dual control means that products are treated differently according to whether they are processed entirely within one and the same undertaking or processed successively in different plants. The system also makes for distortion in these cases when, given different abatement rates, processing firms that have the chance of supplying the market in accordance with the abatement rates laid down find difficulty in obtaining supplies. In the past the Commission has tried to correct these discrepancies by way of Article 17 of the decisions in force, an article that will become superfluous through this change to the system, since it is only the final stage of production at which products will be subject to quotas.

At the same time, the Commission is concerned at the situation as regards coated sheet which is highly varied both in the type of coating and in the applications made of these products. Certain types of coated sheet, such as tinsplate, have never been subject to the quota system.

Others form a somewhat mixed bag in category Id (terne plate, aluminium-coated, galvanised on one side, plastic coated, etc.), and the abatement rate for this category does not properly reflect the development of very different markets.

This category and category Ic (galvanised sheet) are currently in the throes of continuous technical development. The allocation of products between the two categories sometimes presents serious problems. In recent years the demand for coated products has grown, and thus several firms have increased their production capacities. This situation is highlighted by the fact that the Commission has had to fix abatement rates throughout the last few years which were in fact "growth" rates and well in excess of the references in question. On the other hand, at the moment there is no significant unused capacity for that part of the demand covered by category Ic.

For these reasons, the Commission plans to relax controls for these two categories as from 1 January 1986.

The Commission should point out again to the industry the inherent possibility of too much investment in this sector which, although expanding, is in danger of creating surplus capacity, if all the projects currently proposed should be implemented.

- VI. We must, however, remain vigilant. The Commission will therefore continue to monitor the market and production of the categories of products which have been deregulated, continuing its practice of following their development in its quarterly forward programmes and maintaining the surveillance system applying to steelmakers.

If demand should fall significantly for these products and if the Commission should judge that the conditions laid down in Article 58 are once more fulfilled in these market sectors, the Council can be immediately informed and appropriate measures can be taken.

The Commission is also aware of the knock-on effect that deregulation of certain categories may have on products with similar properties in other categories. This applies particularly to certain types of merchant steels in category VI which compete with wire rod. If these products are kept subject to quotas for more than a year after categories IV and V have been deregulated, there may be an artificial distortion in production and consumption. At the appropriate moment, the Commission will take the necessary steps to deregulate category VI, as well as any other possible categories which meet any of the criteria described in Section IV.

As far as the problems set out in this point VI are concerned, and in order to respond sufficiently quickly to market developments, the Commission proposes to ask the Council for the right to decide autonomously, in accordance with the criteria set out above, which categories will be included in, or excluded from, the quota system.

- VII. These changes will of course also mean that adjustments will have to be made to firms' references. The Commission does, however, intend to make more far-reaching changes here since the basis of these references has not been changed since the quota system was first introduced and these quotas are based on production figures which date back even further. Over the last few years there has been such a substantial structural evolution within firms and the market (both internal and external) that these references have become divorced from the reality of production despite the elements of flexibility which have been introduced and the exchanges which have been allowed under the present Decision.

- 1) The Commission therefore intends at the request of an undertaking to permit the possibility of changing their references, for the products remaining in the quota system, according to rules based on those which have been applied under Article 15 of the present Decision but without making them conditional on prior plant closures.

However, in order not to upset the present market supply situation the Commission would only authorise adjustments for up to 10% of steelmakers' overall references and increases of up to 50% in each category's references. To ensure that mono producers were not penalised (which might happen if these adjustments caused a significant increase in supply in their area) the Commission would alter their references to maintain relativity.

Firms' requests to change their product mix must be put to the Commission in the course of the first quarter of 1986, and the new references would remain in force for the duration of the new Decision, although the elements of flexibility provided for by Article 15 would of course continue to apply.

- 2) Since there has been a far-reaching change in the pattern of steel trade between the Community and the rest of the market since the introduction of the quota system, a review would also have to be made of the situation of steelmakers whose ratio between the part of production quotas which may be delivered in the Community and production quotas is, for all products covered by the system, much lower than the Community average.

These historical situations are no longer in line with Community steel policy objectives and the Commission intends, in respect of each firm's production, to bring down this ratio to no more than 10% below the Community average, where this has not been the case so far.

VIII. Another specific measure which the Commission intends to take in addition to these necessary adjustments and deregulation measures described above is to increase the internal elements of flexibility in the system. It will, for example, raise the present 3% ceilings in Articles 11(1) and (2) of the present Decision to 5% from 1 January 1986. Similarly, the 5% flexibility margin provided for in Article 11(3a) and 10% flexibility margin in Article 11(3e) will be increased to 10% and 20% respectively.

As and when there is sufficient improvement in the market for certain categories, the Commission will raise these ceilings after informing Member States of its intentions through the Council and the Consultative Committee.

The Commission also intends to retain Article 16 in its Decision for Greek and Irish steelmakers.

It is, however, going to amend Article 14 to tighten up the criteria for application. The crisis has been running for some years and it is time that the restructuring efforts made by the industry started to produce results. Firms have had long enough to adapt and modernise their apparatus of production and it is now in very few special cases that steelmakers can claim that their exceptional difficulties are due to the quota system.

The Commission will also retain the safety valve provided by Article 14C. It is vital that special major export orders secured by any firm are not hampered by too rigid a system which may cause orders to be lost to non-Community steelmakers.

The Commission will, however, continue to apply very strict criteria to this Article so as not to lay itself open to the accusation that it is exporting its problems.

Finally, the Commission intends to retain similar provisions to those of Article 8 of Decision 234/84/ECSC but will adapt them to make them easier to implement.

- IX. The Commission considers it essential for the steel industry to pursue its restructuring efforts in order to eliminate surplus capacity. For this reason it will not only take steps to ensure that the quota system does not put a brake on the requisite structural evolution but will also introduce extra incentives to help steelmakers adapt their apparatus of production to the market situation.

The Commission will give extra quotas, either under Decisions 257/80/CECA, 2320/81/ECSC and 1018/85/ECSC or in the form of favourable opinions under Article 54 of the ECSC Treaty, to firms which make net capacity reductions (compared to reductions which had been declared at 1st January 1980) from 1 January 1986 which go further than those which would have been required by the Commission. These will be equivalent to a certain percentage of the capacity of plants closed.

However, in order to be fair to firms which have carried out capacity reductions before the application of the new Decision, the Commission will also continue to grant supplementary quotas for closures already carried out, as provided for by Article 14B of the current Decision although this Article must be recast since it was a reward given for speedy implementation of closures but did not take account of the size of the firm's restructuring programme.



In order not to penalise any firm, it is therefore appropriate to calculate supplementary quotas granted under this Article in two different ways: either the method in Article 14B of the present Decision or a method based on the allocation of extra quotas to firms proportional to the capacity of plants which are closed. The most favourable method will be applied to the firms concerned.

This increase in references would not apply if firms were receiving aids under the provisions of Article 452 of the proposed new decision, setting out Community rules for aids to the steel industry.

Finally, as mentioned in Section VII, the Commission will continue to authorise exchanges of references between firms where plants have been closed and changes to the product mix within a firm's own references according to provisions based closely on those of Article 15 of the present Decision.

- X. As already announced, the Commission does not intend to include in the next Decision the provisions of Article 15B of Decision 234/84/ECSC in their present form. The attendant constraints are no longer justified at the present state in the proceedings. Moreover, the inherent limitations in the application of this Article would make it extremely difficult for the Commission to implement.

On the other hand, it does intend to continue, during the first phase of the transition period, with the statistical monitoring of flows of steel products between Member States on the basis of the production certificates and accompanying documents.

These documents will make it possible to check whether the traditional flows between the Member States are subject to serious disturbances. If the statistical monitoring shows that the flows are disturbed, the Commission would immediately examine whether the firms concerned have launched a drive to recruit new customers, contrary to the rules of the Treaty, in particular the rules on prices.

- XI. The Commission does not consider it necessary to extend the quota system to Spain and Portugal at this stage in the return to a competition-based market.

Firstly, the Treaty of Accession stipulates with regard to steel that these new Member States shall be subject, for three years in the case of Spain and for five years in the case of Portugal, to a special arrangement comprising in particular the limitation of their deliveries of steel products to the present ten Member States. This commitment can be administered by extending existing instruments for monitoring traditional flows to the firms of new Member States.

Secondly, the establishment of reference figures for the Portuguese and Spanish firms would be difficult given that they have not been accustomed to completing questionnaires on production and deliveries in the past, and the implementation of the system in these countries would doubtless take several quarters, whereas we are now in the final phase of the application of Article 58.

Finally, as deliveries by Community firms to the Portuguese and Spanish markets have not been specifically limited so far, the inclusion of deliveries to these countries in their reference figures would constitute an additional constraint which is not justified at a time when the Commission is trying to lead the steel industry progressively back to a competition-based market.

The Commission considers that it ought to be sufficient if Portugal and Spain respect their obligations concerning deliveries to the rest of the Community, coupled with the undertaking by Spain to reduce its production capacities by 3 million tonnes and the corresponding undertaking by Portugal to limit its production capacities in accordance with the Commission decisions. During the years of transition, when the new Member States will be authorised to grant aid to steel, the Commission will closely monitor the observance of these commitments.

- XII. The Commission does not possess at present adequate information to define precisely the second stage of the transition period; it will approach the Council in good time to examine jointly whether it is possible to discontinue most of the restrictive measures still in force from 1 January 1988, or whether, if the market has improved beyond expectation and restructuring has made rapid progress, it will be possible to discontinue all of the crisis measures from that date.

If, as seems most probable to the Commission at present, a further transitional year should prove necessary, the Commission will propose to the Council a much more liberal system covering only a small number of products in category I, categories II and II in any case being freed. It is too early to give details of this scheme. However, as already indicated, the Commission, if it considers that the measures taken under Article 58 must be extended one more time, will consult the Consultative Committee, and will duly request the assent of the Council regarding this final prolongation of the system.

SUPPLEMENTARY REMARKS

XIII. In proposing these measures, the Commission intends to exercise in full the responsibilities incumbent on it under the ECSC Treaty. At a time of crisis, the obligatory production quotas constitute, along with the restrictive measures aimed at the evolution of production capacities, one of the most important tools for control and monitoring of the market. Other such tools include:

- the price rules by which steel producers and distributors are bound; as it indicated to the Council in its Communication of 25/7/85, the Commission has the firm intention of suspending the minimum price rules, which apply to certain steel products, and for which prices have improved. But it intends to maintain the system of guidance prices, which will be published and possibly amended from time to time. It will continue to enforce the price rules of the ECSC Treaty and to impose sanctions where necessary.
- statistical monitoring of production and deliveries, and the monitoring of the traditional flows between Member States which the Commission intends to maintain during the next two years;
- the arrangements concluded, and that the Commission intends to renew, with the main non-member countries exporting steel products to the Community, and the establishment and publication of basic prices for imports, which will be periodically updated. The Commission will carefully check that the arrangements are respected by its commercial partners. Also in the import field the Commission will ensure that established regulations are complied with and if an exporter does not respect the rules of international commerce - whether or not he operates from a Third Country, it will use the measures provided for by the GATT regulations, principally anti-dumping actions;
- the arrangements concluded with the USA concerning Community exports to that country, the further renewal of which is currently being discussed.

XIV. Taken together, these measures form a framework which should enable the steel industry to continue the necessary restructuring measures under relatively ordered conditions and in this way, after a maximum period of three years, to operate on a market based wholly on competition within the meaning of the ECSC Treaty.

The Commission has also informed the Council of the accompanying social measures necessary to alleviate the effects on employment of the capacity reductions required by these restructuring measures, particularly in the steel-making areas, where the situation is particularly serious.

However, if the situation is to return to normal quickly, and in order to avoid any uncertainty and disorder on the market which would compromise the efforts to be made and the results already achieved, it is essential, as the Council recognised on 25 July, that the measures taken under Article 58, which alone make possible the adaptation of supply to demand in the present situation, should be extended under the conditions described above.

Consequently, the Commission, after consulting the Consultative Committee, hereby requests the Council to give its assent to this Communication. The Commission will then as soon as possible take the Decision concerning the first phase of the quota system, which will enter into force on 1 January 1986 and be valid for two years.