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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

**INTERMEDIATE REPORT ON THE
RESTRUCTURING OF THE STEEL INDUSTRY**

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1. INTRODUCTION

This communication presents an intermediate report on the restructuring of the steel industry and makes suggestions for the consolidation of this process, in the spirit of the conclusions reached by the Council (Industry) at its meeting on 25 February 1993.

Although the Council originally asked the Commission to present a sufficiently extensive capacity reduction plan by 30 September 1993, it was not really possible to start work on such a plan until the end of 1993 when the Council itself reached unanimous decisions concerning the restructuring measures of certain assisted companies. Steel companies should therefore identify as soon as possible the measures needed to accomplish a sustainable restructuring of the industry. In view of the serious situation and rather discouraging prospects for the Community steel market, such measures are still urgently needed.

In this context, and in view of their conditional nature, the flanking measures must be evaluated and a decision reached on the appropriateness and the modalities of their continued application, where appropriate.

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2. NEED FOR RESTRUCTURING

2.1. Market developments

2.1.1. Internal demand

Since the presentation of the communication of 23 November 1992,¹ the situation on the Community steel market has deteriorated seriously: **domestic consumption**, for which the figures then available went up to mid-1992, continued to fall by an estimated 7% in 1993 (compared with 1992), reaching a low point in the first half of 1993, when consumption of hot-rolled products was down by some 13%.

While 1993 was marked by a general recession (GDP down by 0.5%), the Commission's current economic growth forecasts for 1994 and 1995 (GDP is expected to grow by 1.2% in 1994 and by 2% in 1995) are too weak to hold out any

¹ Towards greater competitiveness in the steel industry: the need for further restructuring (SEC(92)2160).

hope of demand for steel recovering beyond the 1992 level; indeed, this level will be reached in 1995 only if the Community's economic recovery speeds up in the second half of 1994.

2.1.2. Trade with third countries

External demand has been relatively firm since the end of 1992, buoyed up in particular by the strength of the Chinese and American markets, while imports have fallen as a result of weak internal demand and partly also as a result of the external measures applied since 1993. The balance of trade with third countries accordingly showed a marked improvement in the first half of 1993, thanks in particular to exports of hot-rolled wide strip, long products and semi-products to China and also, from the second half of 1993, to North America, and a fall in imports of semi-products and hot-rolled wide strip from the Central and Eastern European countries and the CIS.

As this improvement is based on exceptional factors, it would appear unlikely that the balance of trade with third countries can be sustained at the 1993 level, but a more limited improvement of some 2 million tonnes compared with the 8.2 million tonnes achieved in 1992 is a plausible scenario for 1995.

2.1.3. Price Trends

After having reached an abnormally low level in the first quarter of 1993 the downward trend in the price of steel products, uninterrupted since 1991, has been reverted.

The upturn which has been observed up to the present time, as a result of a better adaptation of supply to demand (as well as the effect of the guidelines of the Commission, see point 3.4 below) and of export demand, remains however, in general, insufficient to support the costs related to the restructuring and thus to ensure the long term competitiveness of the Companies.

2.1.4. The specific problem of the ferrous scrap market

The price of scrap has risen in several stages from US\$ 83 a tonne in October 1992 to more than US\$ 135 a tonne in February 1994, and this has had a major impact on the economic situation of electric steel producers and processors. The Commission has responded by introducing permanent surveillance of the scrap market, in cooperation with the steel industry, and by initiating a long-term structural study.

This price increase follows strong growth (about 10%) in world demand for scrap in 1993, mainly due to the following three factors:

- an acceleration of the trend to replace the integrated production process with the electric process;

- strong demand growth in China and other countries in southern and south-western Asia;
- strong demand growth in the United States during the second half of 1993.

At the same time, the recovery and collection rates achieved in 1993 are equal to or better than those of the boom years 1989 and 1990. With exports of more than 10 million tonnes in 1993, the Community has become the world's leading steel supplier.

2.2. Foreseeable overcapacity

The conjunction of the optimistic hypotheses described at 2.1 above permits the retention in 1995 of the minimal level of overcapacity of 19 million tonnes of hot-rolled products, estimated in November 1992 and recently confirmed by the Community steel industry.

Likewise, the foreseeable obstacles to a recovery in 1995 of domestic consumption to the 1992 level and the possibility of the balance of trade returning to the 1992 level also confirm that there will be an overcapacity for hot-rolled products of the order of 26 million tonnes, at the top end of the range estimated in November 1992. Any measures taken by Community steel companies to eliminate this overcapacity will permit better utilization of the remaining capacity and make it less vulnerable to a less favourable demand trend or to the effect of any new capacities on market equilibrium.

2.3. Capacity reductions: progress to date

Total capacity reductions of the order of **11 million tonnes** of hot-rolled products have already been achieved or are currently regarded as probable, with a fifty-fifty breakdown between assisted and non-assisted companies.

2.3.1. Private closures

These closures, individual or resulting from synergies, correspond to the plans communicated to Mr Braun since the end of 1992. They total more than 11 million tonnes of crude steel and nearly **6 million tonnes of hot-rolled products**. Many of these closures are confirmed either in applications for social measures or in notifications made pursuant to Decision 3010/91/ECSC on (dis)investments.

2.3.2. Closures pursuant to Article 95 (ECSC)

These closures follow the restructuring or privatization of Freital, EKO-Stahl, ILVA, Sidenor, CSI and Siderurgia Nacional under arrangements to which the Council gave its assent on 22 December 1993 pursuant to Article 95 of the ECSC Treaty.

In accordance with the assent, given unanimously by the Council, the authorizations which the Commission has subsequently notified to the Member States concerned impose obligations corresponding to net capacity reductions of at least 2 million tonnes of crude steel and a maximum of **5.4 million tonnes of hot-rolled products**.²

3. IMPLEMENTATION OF THE COUNCIL'S CONCLUSIONS OF 25.2.1993

The measures taken are listed below with reference to the catalogue of actions set out in the Council's conclusions of 25 February 1993.

3.1. Financial measures

3.1.1. Social measures

For the period 1993-1995, an indicative total of ECU 240 million is available to finance social measures for the steel industry, the arrangements for which were described in the Commission's information note of 28 April 1993 (COM(93)178 final).

ECU 60 million of the ECU 80,8 million deemed necessary to satisfy eligible applications for social aid measures were committed in 1993 following applications from the national authorities. These applications cover part of social programmes which correspond to closures totalling nearly 8 million tonnes of rolled products and 6 million tonnes of crude steel. A total of 23 873 workers will benefit from the aid applications approved in 1993.

In 1994, ECU 86 million has been entered in the ECSC operating budget, of which ECU 20,8 million is earmarked for applications approved in 1993.³

3.1.2. Structural Funds

The Commission's package of new Community initiatives includes a programme for the conversion of steel regions by means of developing new activities (RESIDER 2) based on the same fundamental criteria as the first programme. It will apply in Objectives 1, 2 and 5b regions where the total of stated and foreseen job losses reaches a certain level.

² Disregarding the possible construction of a wide strip mill at Sestão and an increase in the capacity of EKO-Stahl above 0.9 million tonnes after mid-1999.

³ The eventual additional resources will be attributed to the social measures in the context of the steel restructuring with a view to reach ECU 120 million.

It will apply for the period 1994-1997, with a proposed budget of ECU 500 million. It will finance measures concerning site environment, the modernization of economic and social infrastructure, alternative economic activities and pilot installations and will facilitate improved access to capital and services.

The consultations of the other institutions and the Member States are in progress, and the final Commission decision will probably be taken in June or thereabouts.

Furthermore the Commission supports reconversion by granting loans according to article 56 2a ECSC.

3.1.3. Article 53, first paragraph, point (a) (ECSC) arrangements

On 22 December 1993, after consulting the Council pursuant to point (a) of the first paragraph of Article 53 of the ECSC Treaty, the Commission authorized three agreements setting up common financial arrangements in respect of closure programmes likely to reduce capacity for hot-rolled wide strip, reversing-mill plate and heavy sections by 6 million tonnes, 2 million tonnes and 2.5 million tonnes respectively (see OJ No L 6, 8.1.1994). The Commission provided for the possibility of facilitating the financing of these operations by means of ECSC loans.

The closure programmes must be notified to the Commission within three months of the date of authorization. The agreements have not yet resulted in concrete decisions on the part of the companies concerned.

3.2. Improvement of structures

With a view to improving the structure and operation of the steel sector, the Commission authorized 29 specialization and/or merger agreements in 1993. Some of the arrangements might have an important potential long-term impact on production capacity.

3.3. State aids

Following the Council's unanimous consents of 22 December 1993, the Commission formally adopted decisions authorizing aid to the six companies concerned. Monitoring arrangements were also adopted with a view to presenting a first report to the Council at the latest by 1 May 1994.

3.4. Market stabilization

Since the second quarter of 1993, the Commission has supplemented its six-monthly forward programmes for steel with quarterly forecasts, aggregated at Community level, of production and deliveries of a number of major categories of steel products. The Commission invited companies to inform it, voluntarily and in confidence, of the manner in which they intended to comply with the overall trend for products from their production ranges: this exercise won the backing of the trade and contributed to price recovery, apparently without damaging consumer interests.

3.5. External measures

The Commission set up an ex ante surveillance system based on import documents provided by the national authorities in order to have an idea of the probable trend of imports, and an ex post system of import statistics to make out-turn figures available more quickly than under the Comext system; the basic import prices were updated in April 1993.

The Commission completed negotiations with the Czech and Slovak Republics on tariff quotas, which were introduced in June 1993, with a progressive increase in tonnages until end 1995.

Russia and Ukraine asked for the Community quotas adopted in 1993 vis-à-vis all the Republics of the former USSR to be converted into bilateral agreements with themselves. The terms of the negotiating mandate are currently being discussed with the Member States; the quotas have meanwhile been extended for the first half of 1994.

The negotiations on the Multilateral Steel Agreement (MSA) could not be concluded at the same time as the Uruguay Round; nevertheless, all parties concerned agreed to continue the negotiations in the next months. In these negotiations an important goal for the European Union will be to formulate to an "anti-harassment-" clause shaping the anti-dumping procedures and to expand the Aid-Code principle to the main trading partners, as well as to assure the definitive suppression of tariff and non-tariff trade barriers. A first negotiation meeting was held between the 5 and 8 April in Geneva in order to take up again the question.

4. INTERIM ASSESSMENT OF THE RESTRUCTURING PROCESS

- 4.1** During high-level informal contacts with the Commission, **the industry** has confirmed the diagnosis of persistent overcapacity. It accepts that the capacity reductions already decided upon are insufficient, but is finding it difficult to

complete the process within the period originally laid down. Nevertheless, it asserts that there is considerable potential for closures (corresponding to around 6 million tonnes of capacity) in the Italian private sector as a result of Decree-Law No 103 of 14 February 1994 which provides for a budget of around ECU 400 million to fund closures, and that specialization and merger agreements now under discussion also offer opportunities for capacity rationalization.

The industry has stressed the need to continue with the restructuring process in the context of strict monitoring of the six undertakings considered by the Council in December 1993 and to maintain the accompanying measures introduced by the Commission following the Council meeting of 25 February 1993. It has undertaken not to ask the respective governments for further aid necessitating derogations pursuant to Article 95 of the ECSC Treaty.

4.2 The Commission is aware that, in accordance with the Industry Council's conclusions, the continuation of the accompanying measures is conditional upon presentation of a credible capacity reduction programme which should have been established by 21 March at the latest, this being the deadline for the notification of closure programmes under the financial arrangements pursuant to Article 53(a) of the ECSC Treaty.

The definitive capacity reductions are below the level of 19 million tonnes of hot-rolled products, this being the minimum level of overcapacity estimated for the end of 1995. Nevertheless, following recent high-level contacts with representatives of the industry, the Commission considers that there are promising signs that this level can be reached in the next few months.

That is why, given the urgent need to continue with the restructuring process, in view of the undertakings given by all the parties concerned (the industry, the Council and the Commission) to avoid further Article 95 ECSC aid derogations, and bearing in mind the effects that an immediate cessation of the accompanying measures could have on the steel market and on this process, the Commission proposes to maintain these measures provisionally, subject to the guidelines set out below, until the evaluation to be sent by the Commission in September in view of the Industry Council meeting.

4.3 Continuation of the accompanying measures

4.3.1 Support measures

The Commission will maintain the steel social measures for the workers affected by the abovementioned plant closures.

The Commission proposes to implement the Resider 2 programme according to the modalities described in point 3.1.2. In the same way the propositions of the Commission in respect of the new Objective 4 and the Community initiative 'ADAPT' (submitted to examination by the appropriate committees and to a consultation of the European

Parliament) could, in view of the projects which will be presented, give an additional flexibility to support the restructuring other than that of the regions 1, 2 and 5b.

Article 53(a) arrangements: The Commission also remains prepared to authorize closure agreements subject to the conditions it laid down in connection with the abovementioned Article 53(a) ECSC agreements.

4.3.2 Improvement of structures

Under the ECSC Treaty's competition rules, the Commission will be extremely flexible when authorizing mergers or specialization agreements provided that they result in definitive closures of plants for products where there is overcapacity.

4.3.3 Monitoring of State aid

The Commission will strictly apply the monitoring provisions laid down for the six undertakings concerned by the Council Decisions of 22 December 1993. It will also maintain the strict surveillance of the situation of undertakings in the sector with regard to the Aid Code in accordance with the Council and Commission statement of 22 December 1993.

4.3.4 Market stabilization

Article 46

The Commission will continue to set quarterly guidelines under Article 46 of the ECSC Treaty.

Scrap

Given the short-term difficulties on the scrap market, the Commission has approached Turkey in the context of the Customs Union negotiations. It has obtained a commitment that the subsidies for Turkish scrap imports will gradually be stopped by 1 October 1994. It has also had formal discussions with Poland to get it to remove scrap export restrictions incompatible with the Association Agreement with the European Union. Likewise, it is negotiating with Romania, Bulgaria and the Czech Republic to minimize the impact of scrap export restrictions in existence on the entry into force of their Association Agreements with the European Union.

4.3.5 External measures

In the context of the external accompanying measures, the Commission:

- will continue with the import surveillance measures already adopted;

- will apply until 31 December 1995 the tariff quotas agreed with the Czech and Slovak Republics;
- will maintain the continuous monitoring of the steel restructuring process already begun in the various CEEC on the basis of the provisions of the ECSC Protocols incorporated in their respective Association Agreements with the European Union;
- requests the Council to expand the mandate for the negotiation of bilateral agreements with Russia and Ukraine with a temporary extension until the end of 1996, with the inclusion of an ECSC Protocol similar to those agreed with the CEEC, to facilitate continuous and more transparent monitoring of their steel restructuring processes which have scarcely started;
- will intensify, in close cooperation with the Community steel undertakings, industrial cooperation measures vis-à-vis the CEEC and the CIS Republics, with the funding provided for in the Phare and Tacis technical assistance programmes or by supporting the funding via the EBRD or other international institutions of viable investment projects consistent with the restructuring processes underway in those countries and in the European Union;
- will work towards the finalization of a balanced MSA with a view to establishing strict, lasting and transparent discipline for international steel relations.

5. CONCLUSIONS

The Commission calls upon the Council to support these guidelines. It will reassess the steel restructuring process and the abovementioned accompanying measures in September in view of the Industry Council meeting.

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DOCUMENTS

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